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FIRMS AT THE CROSSROADS: THE NEWCASTLE-MADADENI CLOTHING SECTOR AND RECOMMENDATIONS ON POLICY RESPONSES

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Newcastle-Madadeni Clothing Sector Project

An initiative of the KZN DEDT and Newcastle Municipality

Report prepared for the Project Steering Committee

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ABBREVIATIONS AND ACRONYMS

ABC	Amajuba Business Centre
AGOA	Africa Growth and Opportunities Act
CMT	Cut, Make (and) Trim
CPI	Consumer Price Index
DBSA	Development Bank of Southern Africa
DCCS	The Duty Credit Certificate Scheme
DEDT	Department of Economic Development and Tourism
DOL	Department of Labour
DTI	Department of Trade and Industry (South Africa)
Emp.	Employees
EU	European Union
GGVA	Gross Geographic Value Added
HIV / AIDS	Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome
HS	Harmonised System (Nomenclature for traded goods)
ILO	International Labour Organisation
KZN	KwaZulu-Natal
MAC	Manufacturing Advisory Centre
MEC	Member of an Executive Council
NBC	National Bargaining Council for the Clothing Industry
NCCI	Newcastle Chamber of Commerce and Industry
No.	Number (of)
p.a.	Per annum
PSC	Project Steering Committee
Q	Quarter (of a year)
RIDP	Regional Industrial Development Programme
SA	South Africa
SACTWU	Southern African Clothing and Textile Workers Union
SARS	South African Revenue Service
SD	Sectoral Determination
SETA	Sector Education and Training Authority
SMEDP	Small and Medium Enterprise Development Programme
SMMEs	Small, Micro and Medium Enterprises
T&C	Textiles and Clothing
TIK	Trade and Investment KwaZulu-Natal

TIPS	Trade and Industrial Policy Strategies
TISA	Trade and Investment South Africa
UK	United Kingdom
UPUSA	The United People's Union of South Africa
US	United States of America

EXECUTIVE SUMMARY

Purpose of report

This report outlines findings and recommendations arising from an investigation into clothing firms in the Newcastle Municipal area with a particular focus on Newcastle and Madadeni.

Background

The report is the product of a process of investigation that was launched by the KwaZulu-Natal (KZN) Department of Economic Development and Tourism (DEDT) and the Newcastle Municipality, through the local Newcastle-Madadeni Project Steering Committee (PSC).

Methodology

The project involved sourcing of material from existing documentation; sourcing and analysis of data; and a series of key informant interviews and mini-workshops.

Main findings

- The report documents the turmoil in the global garments sector and how this has impacted on dynamics in South Africa and more specifically in KZN and Newcastle-Madadeni. Processes of globalisation have reinforced the commodity characteristics of apparel items with persistent downward pressure on end market prices and continuous cycles of cost reductions being forced down on input providers.

- South Africa-based clothing production has witnessed considerable changes in the operating environment in the past ten years, including: rapid tariff reduction; currency instability; growth in import competition; and the opening up of new trading opportunities. These changes have been matched by more rigorous enforcement of internationally accepted labour standards and formalisation of institutionalised corporatist arrangements facilitated by government policy involving labour and capital. In an environment of increasing macro-economic stability, the environment, under these processes, has been far from consistent for clothing producers. Many thousands of jobs have been lost and the sector is characterised by a range of processes of restructuring including informalisation, sub-contracting as well as the strengthening of the market positioning of some firms and the weakening of others.

- In domestic market terms the increasing access of buyers to imports has placed enormous price pressures on domestic producers. The South African domestic market remains one characterised by middle-to-low end goods and does not carry value attributes that are generally associated with the low-run, high product variety - characteristics that predominate amongst South African-based firms.

- The export performance of South African-based firms has improved markedly since the early 1990s but has declined from the highs of the early Africa Growth and Opportunities Act (AGOA)-impact period of the past few years as currency adjustments made domestically produced goods less price competitive in the international market. Much uncertainty characterises the prospects of the export market, both in terms of currency-related effects and in terms of the nature of domestic and international policy considerations. This has tended to see firms take a much more jaded view of future export potential as many firms that took maximum advantage of Africa Growth and Opportunities Act (AGOA)-related opportunities have suffered the most in terms of loss of orders and consequent labour lay-offs.

- In this environment, the impact of these changes on the Newcastle-Madadeni area, has been significant as the local government had a long and successful track-record of attracting Taiwanese (and recently, Chinese) garment and knitwear firms to the location. Today, despite the instability of the sector, clothing remains a crucial employer to both Newcastle-Madadeni and KZN Province as a whole. The developmental potential of the sector to create employment in an employment-scarce environment has been a major driver of this interest in this sector. The region was able to capitalise on considerable statutory wage differentials and limited regulatory enforcement to position itself as a cheap labour location.

- Production activities in the clothing-related sector in Newcastle-Madadeni are relatively diversified, ranging from a handful of exporting firms to domestic market producers providing product for informal, formal low-end and formal-higher end retailers. Firms established and managed by foreign investors (Taiwanese and Chinese) predominate as only a handful of firms owned and managed by South Africans continue to operate (although these happen to be the largest employers at present).

- Whilst accurate figures of numbers of firms and employment are difficult to come by it is clear that the past few years (since 2000) have seen the loss of about 3000 jobs from large firms and the closure of a number of smaller firms. Firms attribute this variously to the impact of the currency, cheap imports, and rapid rises in labour cost. This instability has further contributed to an environment of labour-employer tensions which cannot be divorced from past exploitative practises that were both directly and indirectly supported by government programmes under apartheid. In this context the escalating presence of government as a regulator has perhaps had a disproportionate impact, although it is one which closely mirrors global standards that are increasingly becoming relevant in major foreign and domestic market segments.

- Firms and related institutions - such as Sector Education and Training Authorities (SETAs) - show little evidence of interaction and social cohesion in the area. Foreign-operated businesses display considerable levels of mistrust in domestic institutions and appear to have little cooperation with one another. Relations between South African run firms also appear limited as are relations between South African and foreign-operated firms. This undermines the potential of collective action amongst key role players in the same way that has enabled other locations under threat to adjust and respond to new competitive pressures through inter-firm and firm-institution networking.

Recommendations

A series of recommendations have been made in the report. These recommendations are relatively high-level preliminary proposals as they move from the perspective that conditions in the region do not allow for more ambitious exercises at this juncture. The issues and assumptions behind the recommendations are discussed more fully in the main report.

Short term interventions with a focus on the clothing sector

Appoint a part-time clothing project facilitator for the Project Steering Committee
The brief of the appointed individual would be to carry out the viability studies and business planning relating to the creation of a Newcastle-Madadeni Clothing Business Development Centre. The notion of a pro-active business resource centre was widely proposed and has precedent in similar developmental environments. The facilitator would, in parallel to the above-mentioned business planning process, organise a series of dedicated 2-3 day "clinics" for relevant entities to come to the region to disseminate information on their activities and assist with firm and other stakeholder requirements. Possible candidates for the "clinics" would include: the Textiles, Clothing, Footwear and Leather Sector Education and Training Authority, the Department of Trade and Industry (DTI), the Department of Labour (DOL), the South African Revenue Service (SARS), the Bargaining Council, Proudly South African and Buy SA. A particular effort should be made to include emerging black-owned business in these processes.

Facilitate behind the scenes resolution of bargaining council dispute
A range of stakeholders indicated that the present dispute between some clothing employer and the bargaining council (as well as the DOL) was contributing to tensions and could escalate further to impair the region's already damaged reputation. Resolution of this in a manner which positions the Newcastle region as an area where stakeholders commit themselves to negotiated processes is important. The potential exists to turn around a negative scenario into a positive one where the regions reputation and that of key members of its community is enhanced.

Initiate high-level partnership (KZN-wide) interaction with the DTI via Member of an Executive Council (MEC)-Minister processes on national clothing sector dynamics
Key issues that need to be raised in this process include the low likelihood of a common plan between clothing and textile representatives, duty credit certificates scheme (DCCS), AGOA, incentive schemes, differential labour rates.

Medium term interventions with a broader focus (6-24 months)

It is important to recognise that collective processes envisaged in some of the recommendations are likely to take some time to yield benefits and in some cases considerable preliminary work would need to be done to ensure ultimate progress. The following proposals fall into the category of issues that need immediate planning, but are only likely to make a difference in the medium term.

Funding and establishment of Clothing Business Development Centre
The business planning process proposed in the short term actions category would determine the likely focus and viability issues around such a centre. However, as was previously mentioned, the majority of stakeholders expressed the need for some type of industry resource at a local level to deal with information provision, communication and technical support issues. It is also clear that should the government stakeholders wish to support the further development of black owned enterprises in the sector, some form of dedicated resource would be necessary.

"Newcastle Responsible Production" grading process
An independent accredited entity would work with local stakeholders to develop a series of levels of accreditation in line with domestic and international standards processes. Firms would then be offered diagnostic support (in no way connected to regulatory processes) which would in turn give them a set of requirements they would have to meet for levels of accreditation. The accreditation would need to carry the weight of acceptance with a critical mass of relevant bodies and could therefore be a branded substitute for other forms of accreditation.

Re-evaluation of investment marketing processes
A number of options would need to be assessed for a renewed focus. Consideration should be given to the TIK Business Retention and Expansion project which could enable a repositioning around providing services to existing firms in order to assist with their future development.

Newcastle-Madadeni – Northern KZN's Service Hub: a repositioning / diversification strategy
Analysis suggests that the past decade has seen rapid, perhaps unprecedented growth in Newcastle of service and retail activities – such that Newcastle's position as Northern KZN's Service Hub is being increasingly recognised by both the private and public sectors. It is important that there be an active drive to reinforce this.

<u>Other recommendations</u>

ABC process
The decision to establish an Amajuba Business Centre (ABC) in the region is a welcome one and would fill an obvious gap. However, it is critical the relevant stakeholders are informed of the process and at present it appears some sectors of the business community are not fully informed of the programme which could result in governance and operational problems in future. The potential does exist to consider alignment of specialist clothing support with the development of the ABC. Further attention should be given to the provision of much needed support to emerging black-owned firms.

Ladysmith-Ezakheni and Newcastle-Madadeni Co-operation
Whilst the two centres have a history of competition it is likely that they would share some issues in common – particularly when it comes to the clothing and textiles sector. Developing some shared perspectives and joint activities could reduce costs and risks and present benefits to all stakeholders (for example on the training front with colleges and SETAs).

HIV/AIDS interventions

Independent research work and input from the stakeholders has identified this as an important area for government attention. HIV/AIDS issues are impacting on the workforce and the investment environment. Firms in the area appear to have little in terms of active strategies to deal with the consequences.

1 INTRODUCTION

This report outlines findings and recommendations arising from an investigation into clothing firms in the Newcastle Municipal area with a particular focus on Newcastle and Madadeni. The report is the product of a process of investigation that was launched by the KZN Department of Economic Development and Tourism (DEDT) and the Newcastle Municipality, through the local Newcastle-Madadeni Project Steering Committee. The report documents the turmoil in the global garments sector and how this has impacted on dynamics in South Africa and more specifically in KZN and Newcastle-Madadeni. Processes of globalisation have witnessed production of goods such as clothing beginning to take on the characteristics of commodities with persistent downward pressure on end market prices and continuous cycles of cost reductions being forced down on core input providers. However, despite a measure of pessimism about the conditions under which clothing businesses have to operate, the sector remains a critical factor in the developmental paths of many countries. Where labour is abundant and relatively unskilled, and where necessary production and distribution-related services are located in some proximity, clothing-related activities seem often to thrive. However, South Africa and KZN in particular have had a very mixed experience with the sector in the last decade or so. Macro-policy restructuring and trade reform witnessed what was a very protected sector being rapidly thrust into the cauldron of global competition: some have suggested that as many as 30000 jobs have recently been lost in the region as the result of the continued momentum of these processes. Despite this experience the clothing sector has shown some resilience. Many firms restructured and, over time, new ones entered the market with a fair number of firms making a concerted effort at entering export markets.

Newcastle and Madadeni have not been immune from these processes in the past couple of years. In recent times many jobs have been lost and the prospects of many of the firms appear to suggest that the region will suffer further economic instability. This scenario presents challenges for policy makers and influential stakeholders wishing to see the growth and development of the area. Should stakeholders wish to leverage the sector in an effort to create more employment and stimulate entrepreneurial development, considerable work needs to be done. The area can no longer rely on eroding cost advantages and substantially different labour environments to secure a prosperous future. Collective action by stakeholders does have some potential to improve the resilience of firms in such an environment to enable corrective action to be taken when necessary. This can be done to the benefit of employees as well as emerging entrepreneurs. However, no easy solutions present themselves. Rather what is proposed is a gradual exercise in building local capabilities to unlock local opportunities.

Project background

The project forms part of recommendations emerging from the KZN DEDT's Township Economic Regeneration study. This study was concerned in the main with the prospects of township areas that were denied the opportunity to develop an economic fabric due to apartheid policies. The study recognised the dynamic interaction between important mainstream sectors in different regions and the prospects of particular townships. It therefore proposed a number of detailed pilot studies to evaluate the potential of drawing on mainstream economic activity to bring opportunities to townships.

Project purpose

The project's terms of reference place considerable emphasis on drawing information and documentation from existing studies on the subject and call for a "consolidation" of studies as a significant project purpose. Apart from the "consolidation" the study also asks for examination of existing trends and requires interaction with stakeholders in the development of proposals on how the sustainability of the clothing sector can be enhanced, and how the benefits from such a process could be utilised in the context of the residents of Madadeni.

Project methodology

The methodology underlying the project has the following main elements:

- Analysis of secondary sources (existing reports etc)
- Primary research in the form of a 10% interview sample
- Participatory engagement with stakeholders (internal and external)

A total of 20 interviews were conducted. The bulk of these took place in the form of face-to-face discussions with project team members in Newcastle and in Madadeni. A couple were done over the phone and some of those interviewed were Durban-based. A mini workshop was held with the Newcastle Chamber of Commerce and Industry (NCCI) members, a focus group discussion took place with members of the Sakekamer and individual members of Inyanda and the Chinese Chamber were consulted.

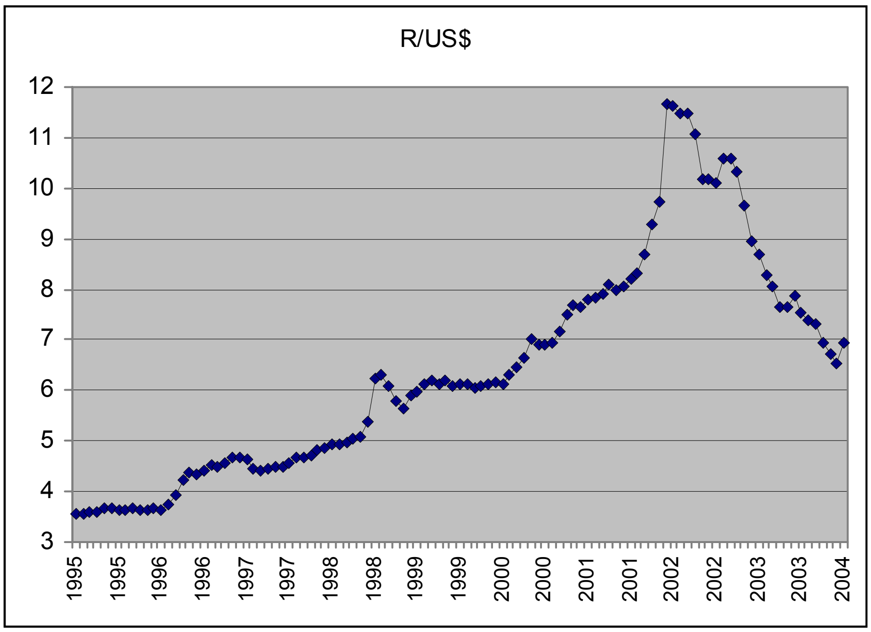
This report is structured along three main parts. Section 2 provides a general background of both, the textiles and clothing sector. This background sets out the most salient aspects of the industry, the factors defining these and the current difficulties facing the sector. The discussion then zooms onto the Newcastle-Madadeni economy and onto the current features of its clothing sector (Section 3). This section provides a detailed historical overview of the various phases of economic development in the area, from the 1960s to the mid-1990s and then from the mid-1990s up to 2001. With data generally lacking after 2001, the focus shifts to reporting current clothing dynamics in Newcastle-Madadeni as they were identified in the process of fieldwork. Detailed recommendations are then set out in Section 4.

2 GENERAL BACKGROUND OF THE TEXTILES AND CLOTHING SECTOR

In this section, we focus on detailing the salient aspects of the clothing industry. A first main section presents the global and national context for the industry. A second main section sets out some key points about the current state of the clothing sector in South Africa.

South African textile and clothing firms are constantly adapting to a series of competitive pressures. Over the longer term, these have been associated with the lowering of South African barriers to imports, the rationalisation of government industrial support measures, and the reduction of the scope of the support provided by government measures. A notable change in the area of support measures is the forthcoming expiry of the duty credit certificate scheme (DCCS). This scheme, available to exporting firms, is reported by the industry to have had a major impact on the ability of firms to break into foreign markets as well as to preserve their domestic sales by contributing to profit margins (see Moodley and Velia, 2002).[1] Externally, important changes in terms of firms' prospects to access foreign markets are taking place as production by new competitive trading newcomers expands. This expansion creates intense competitive pressures amongst exporting firms the world over. More recently, important pressures have resulted from the appreciation of the Rand against major currency (Figure 1). Significantly, the adjustments undertaken by the textiles and by the clothing firms - as these started to take shape from the mid-1990s - differ markedly. In particular, textile and clothing firms diverged from a process of integrated pipeline development. There are numerous explanations for this; besides the sectors differing in the intensity of their factors of production, producers in the two sectors face distinct national and international demand trends, constraints and opportunities.

Figure 1. Rand/US$ exchange rates (January 1995 to January 2004)



Source: DTI database. (Data, downloaded in March 2004, are "Exchange Rate, data by Internet".)

In this section, we provide a snapshot of the most salient characteristics of the two sectors. This serves to highlight the fact that the firms in the textiles and clothing sectors have to be on a permanent adjustment path whilst the conditions in which they operate are increasingly difficult.

The following features characterise the clothing sector:

- in the domestic market, the firms deal with a relatively limited number of South-African based end-customers (e.g. retailers, specialty stores etc.). Although end-customers differentiate their market segment according to consumers' income levels, the retail sector in South Africa is notably concentrated. Estimates from Kesper

[1] Stressing however that the textile firms have a different position on the impact of the DCCS as the Certificates can be sold to retailers. Thus, the Certificate may play a role in the expansion of imports of finished garments instead of being spent to support local firms and local textiles production.

(1999) and Gibbon (2002) are that the top five to seven South African retailers account for between 60% and 70% of national sales. Important price pressures emanate from this concentration; in contrast to some amount of small-volume orders towards domestic producers for short–lead time fashion garments and for garments in which South Africa has a fabric advantage (e.g. woollens), retailers have increasingly easier access to cheaper garments from abroad – namely Asia.[2] This is taking place in a context in which in parallel to international clothing trade expanding in volume, the average prices of garments decline. Moreover, domestic demand is highly seasonal, with the consequence that producers are operating in a volatile as well as financially difficult environment.

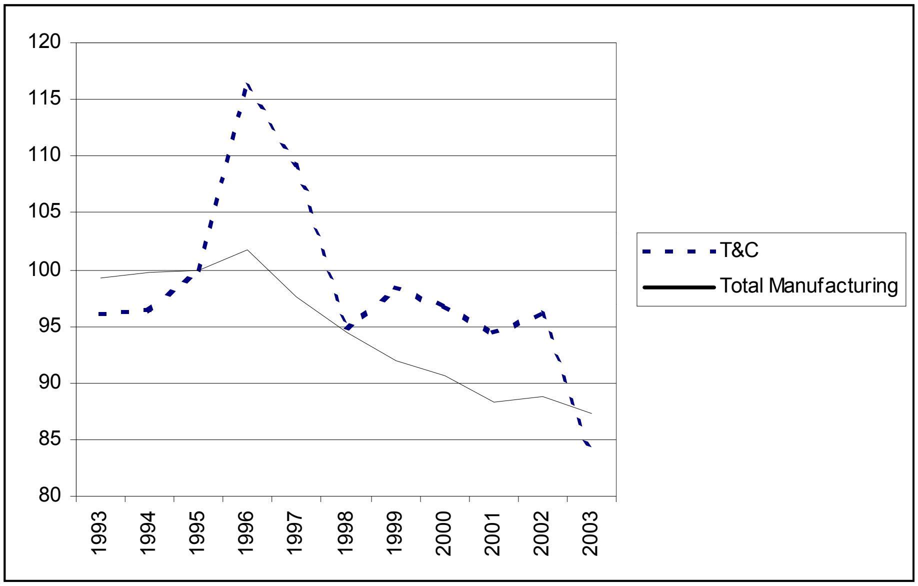
- Asian apparel prices are declining whilst exchange rate levels continue to shape the direction and volumes of foreign orders. Competition for production for domestic buyers is now fierce with import pressures resulting from the appreciated Rand (since March 2002). Also internationally, Chinese garment exports are growing. The latter process is at least in line with China's ability to produce a growing range of apparel items, with Chinese producers' improved capacity to overcome the barriers associated with high international quality standards, with the availability of producers in China to tap on comparatively cheap and high-quality fabrics (from neighbouring Asian textiles producing countries as well as locally) and with the low level of wages which prevail in that country.

- The pressure experienced by the clothing firms in South Africa - evident in the pattern of firm closure/production decline and in the import growth trends - is compounded by comparatively stagnant/declining share of consumer spending in apparel goods (see also the clothing sales trend in Figure 3, page 6). In spite of the difficulties confronting the firms, clothing has remained an important economic sector; clothing firms have displayed lower job losses than manufacturing generally (Figure 2). In parallel, (textiles and) clothing account for a comparatively large proportion of manufacturing employment (11 to 13% including textiles and 9 to 11% excluding "spinning, weaving and finishing of textiles" over the 1993 to 2003 period). It is important to note however that some seriously adverse trends started to emerge at the beginning of 2003. According to Statistics South Africa (SA) data, the number of actual employees in wearing apparel would have, over the first 6 months of 2003, declined by 14.4% compared to the first 6 months of 2002 and by 15.2% compared to the first 6 months of 2001. That is 17277 jobs would have been lost in this period. Moreover, job losses are estimated to have occurred throughout 2003 as one key informant for this project reported that as many as 30000 jobs were lost in the year. Such losses are important for the economy; according to the Southern African Clothing and Textile Workers Union (SACTWU) "on average every factory worker supports a family of five and every job lost has an impact on the retail industry's consumer base. Hence the job losses in the industry last year [2003] affected an estimated 100 000 people." [Business Day (2004: 40)]

[2] This is in parallel to the "rise of the discount formula retailing" to use the description of Gibbon (2002: 23).

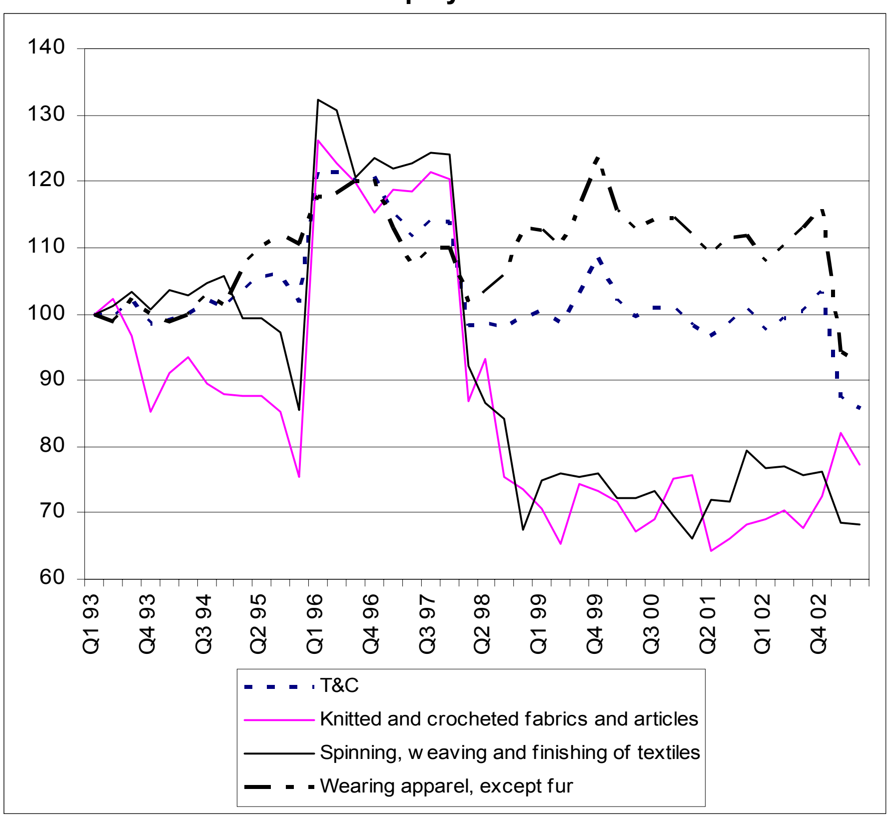
Figure 2. Employment trends in textiles and clothing in South Africa

Indices, 1st quarter 1993 to 1st quarter 2003, 1995=100 - actual total employment



Source: Statistics SA – also available from the DTI database. (Data downloaded in March 2004.)

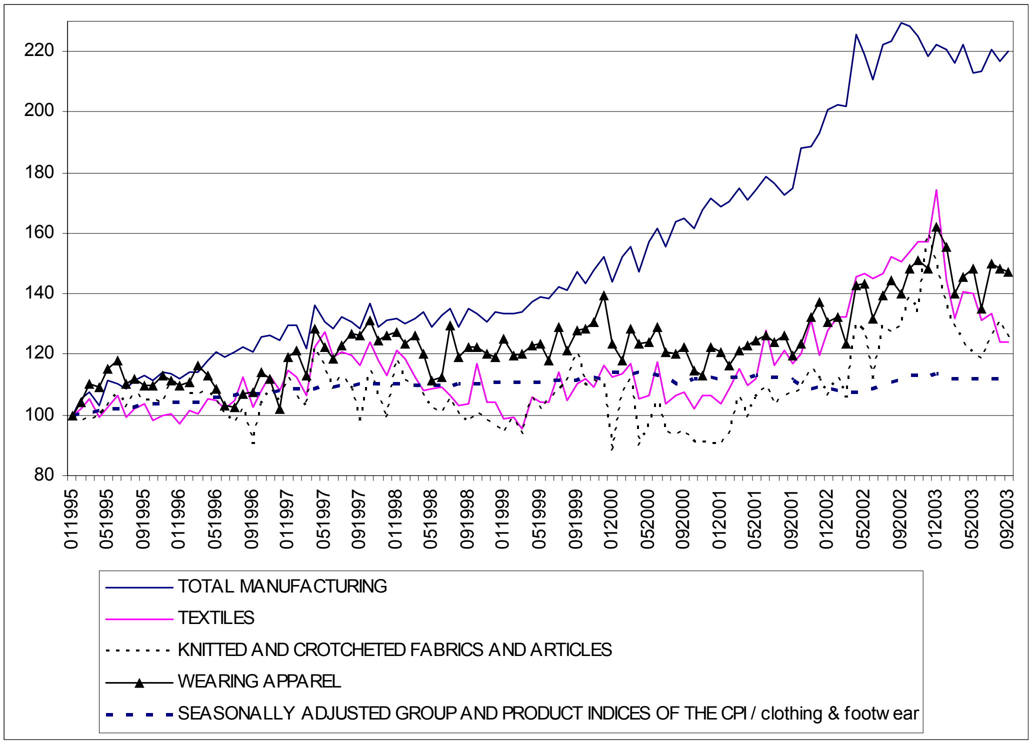
Indices, 1st quarter 1993 to 2nd quarter 2003, 1st quarter 1993 =100 – actual total employment



Source: *Ibid*.

Notes:
1. T&C: textiles and clothing;
2. Data are available on a quarterly basis. "Q" is a yearly quarter (e.g. data are aggregated over 3 consecutive months of a given year).
3. Both series are based on data for Series "P0271 Employment and Earnings".

Figure 3. Values of sales (indices – Jan. 1995=100, seasonally adjusted)



Source: Statistics SA (data downloaded in March 2004).

Note: Respectively Statistics South Africa Series MSS30000, MSS31100, MSS31300, MSS31400 and VPS23000.

Whereas South African firms are confronted by a reduced set of opportunities nationally, the performance of clothing firms is varied amongst the range of clothing firm types. In particular, there are sharp nuances in performance linked to the main market served (domestic *vs.* foreign). The larger clothing firms, whilst maintaining a share of their production for the national market, have increasingly turned to foreign markets, in particular the US. Opportunities elsewhere have remained comparatively stagnant.

There are specific drivers of access to the US, but difficulties in breaking into neighbouring African markets reflect:

1) the presence of a clothing production base in numerous African states (and thus some amount of regional competition over African consumers);

2) difficulties in establishing "substantial" orders from countries at relatively lower income per capita level;

3) Difficulties in overcoming high barriers to trade, production and to sales.

The main differences which characterise the major export market and the domestic market, and which are sketched in Table 1, highlight distinct operating conditions and specific barriers to the taking up of foreign opportunities. The lead-time dimension associated with firms that supply overseas markets further underlies the importance of well-established and functioning linkages between clothing and textile producers.

Table 1. Basic typology of clothing firms by market

	Domestic market	**Foreign markets**
Order characteristics	small volume order, short-lead time for mid-price point garments; exchange rate trends driven order, particularly for low price point segments;	volume and quality driven; end-customers network is critical (key role of foreign end-customers representatives – e.g. the Gap Inc. - & of global sourcing companies);
Product characteristics	more fashion oriented and thus different fabrics requirements;	quality fabrics requirements put pressure on lead-time and delivery;
Transport characteristics	proximity advantage (producers to end-customers);	meeting delivery date requires coordination and specialised support (intervention of freight forwarders);
Labour characteristics	Training as specified by the Skills Development Act	multi-skilling incentives (link to productivity and resilience to changes in orders); DCCS related investment in training; social compliance essential for international buyers.

Source: Based on research carried out in 2002 for Moodley and Velia (2002) by the authors.

KZN clothing firms have taken up foreign orders (Table 2). However, the KZN export drive is atypical from that displayed by other South African provinces as exports originate outside the main town (40% to 50% of KZN garment exports would be from outside Durban) and as woven fabrics garments (not garments of the knitted/crocheted variety) appear to dominate the composition of garments exported although there are variations across years.

Table 2. Growth of clothing exports across South Africa's regions (annual change)

Region	1998-1999	1999-2000	2000-2001
KZN	9.3%	20.9%	59.4%
South Africa	**18.1%**	**14.9%**	**36.9%**

Source: Own calculations from Customs and Excise trade data at the postcode levels. Data at 2000 constant prices.

As for the textile sector, it shares the difficulties and some of the trends of the clothing sector. Notably, employment losses occurred between 1997 and 1998 to marginally stabilise afterwards (see Figure 2). The "spinning, weaving finishing" together with the "knitted and crocheted fabrics and articles" sectors amount to 17% and 9% respectively of total textiles *and* clothing employment.

As textiles firms restructured relatively rapidly, they followed a trend which has not always been beneficial to the clothing firms. Namely, textile firms have engaged in the production of higher value-added goods in the area of industrial or/and specialised textiles. Only between 30% to 40% of South African textile production is input in clothing production (the figures vary depending on the fibre type considered).

Whereas a series of issues has emerged from more recent adjustments in textiles, one change has strongly impacted on textiles-clothing relations. A major constraint facing clothing producers has resulted from the rationalisation of the range of fabrics available in South Africa. The shift for textile producers has been in favour of producing fabrics for large volume orders. As garment exports to the US are duty free on the condition that local fabrics are used, competition over access to textiles takes place across clothing firms. When exports grow, South African clothing producers face long delays in the production of available fabrics for the domestic ***and*** the foreign market. This is in a context of a small national textile production base moreover (e.g. two textile mills operate in South Africa).

If specialised fabrics are required these have to be imported (because of the lack of textile technology domestically but also because high quality fabrics that are not available locally are required by demanding overseas customers). The duty rate averaging about 20% for fabrics is not negligible in a sector in which material amounts to about 50% of the costs of a finished garment. These combined factors provide an advantage to vertically integrated firms. Declines in exports and a stronger Rand alleviate such pressures although, in fact, they also adversely impact on the performance and profitability of the textile firms.

Although the importance of textiles in the final cost of a garment means that pipeline pressures generate strong competitive pressures for the clothing sector, the strong Rand appears to have given new leverage to garment producers. As imported fabrics have become comparatively cheaper, the textile firms are seeing their national sales prospects under threat.[3]

The net impact of Rand-related changes on the industry is hard to establish. However, the intensity of the competition against cheaper textile and clothing goods from overseas seems to have stepped up in 2002 and 2003.[4] Imports have increased and exports have decreased, albeit with varying lags across sub-sectors. Trade balances in clothing have changed accordingly (Figure 4).

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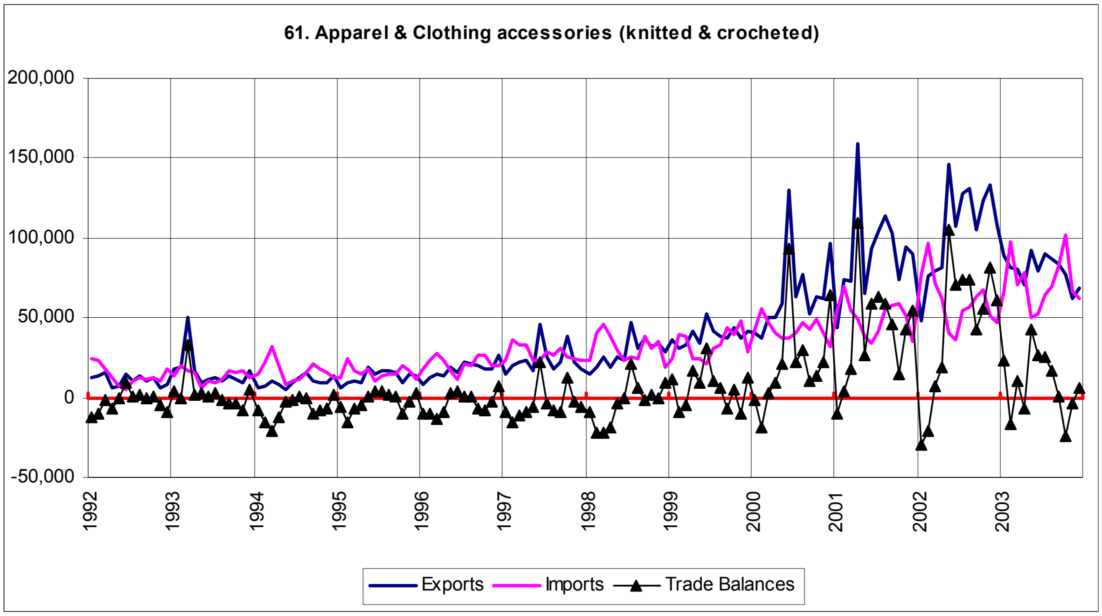
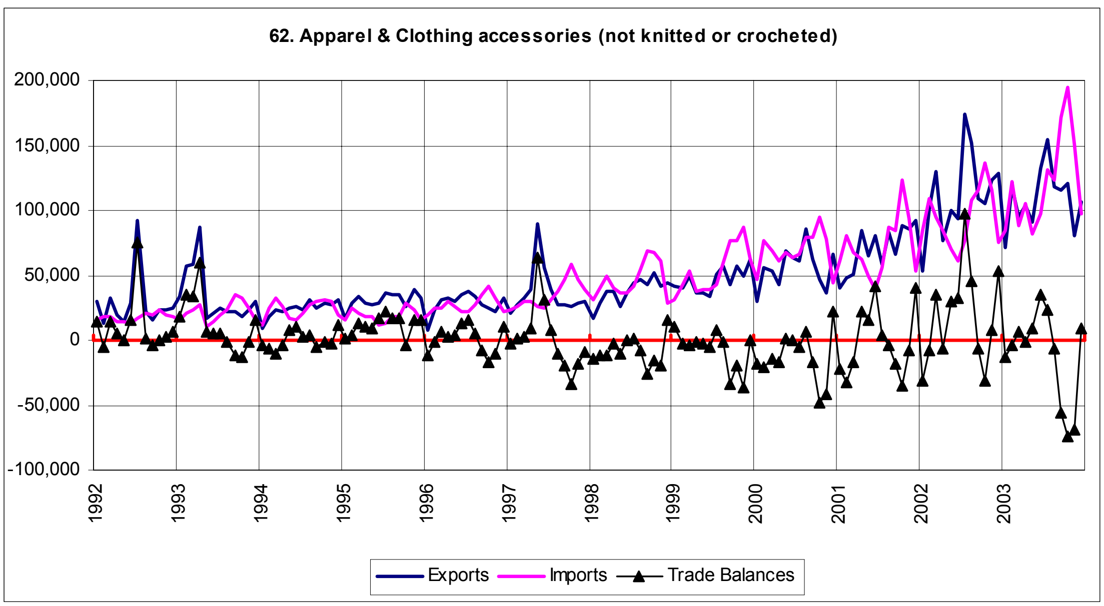
[3] The above does not preclude that some clothing firms have established tight and good relations with their textiles suppliers. However, this is generally not the norm in an increasingly competitive environment. Typically, the few vertically integrated firms in operation in South Africa have an advantage in this regard. Generally, South Africa's textiles production has remained strong in woollen fabrics (and in some cotton fabrics) and there were important investments in South Africa in textile firms involved with synthetics fibre production.

[4] Import penetration increased over the 1990s to stabilise afterwards (Moodley and Velia, 2002).

Figure 4. Clothing trade trends (thousands of Rand)





Source: DTI trade database. (Data downloaded in March 2004.)

A series of factors combine to make the current production and trading environment for clothing firms a difficult one: as production is expanding in large trading newcomers (e.g. China) and as countries have secured a larger window of opportunities than South Africa (e.g. the least developed AGOA beneficiaries), firms in South Africa have to keep adjusting to at least maintain their position. In turn, the process of adjustments is compounded, for some firms, by the process of having to adjust the wages in line with the minimum-wage rate for the sector as will be discussed subsequently. In this regard, a large number of firms will have to make adjustments to bring their workers' wages in line with legislated wages. This particular adjustment is likely to be more notable for firms whose choice of location was based on the wage differential.

In a sector in which scarce financial resources (and low profit margins) generally impede hedging strategies (here narrowly defined as the process of the firms taking up insurances against sharp currency changes), the "continually" strong Rand would force the search of new strategies and rationalization of the production base. The difficulties need to be further set in an uncertain international context. The current international trade context itself contains numerous elements of relative uncertainty. These range from uncertain trade benefits (in the context of AGOA or in terms of the outcome and details of evolving or of new regional preferential trade areas) to assessing the direction and extent of the increased competition associated with the complete removal of quantitative trade restrictions by the developed markets in 2005.

Several general effects are occurring in the international arena which are pertinent to the South African firms.

- First, because international orders are cost sensitive, they are likely to be shifting away from South Africa (for reasons explained above); there is some evidence for this insofar as exports of garments to the US and to the UK declined recently in the major groups (Table 3). Moreover, as already noted, the sectoral trade balances are changing (Figure 4) as retailers turn to imported finished garments.

- Second, in an uncertain environment there is some evidence that foreign buyers are currently establishing themselves with particular producers overseas for the medium run.[5] This means that returning to any lost foreign buyer will be hard for the firms.

Table 3. 2002/2003 change in SA exports to main markets in main clothing product groups

SA exports to UK

4 digit HS code	Annual Growth
Name	2002-2003
6203.Men's or Boys' suits Ensembles,Jackets,Blazers, Trouser	-10.90%

SA exports to the USA

6 digit HS code	Annual Growth
name	2002-2003
610910. T-shirts, singlets and other vests of cotton	-23.50%
620342. Mens/boys trousers and shirts of cotton not knitted	28.90%
620462. Womens/girls trousers and shorts, of cotton not knitted	-23.60%
620331. Mens/boys jackets and blazers, of wool or fine animal hair, not knitted	-14.80%

Source: DTI database. (Data downloaded in March 2004.)

Note: HS is harmonized system (nomenclature of goods).

Having stressed some basic aspects of production and of pipeline difficulties, we turn to a presentation of the evolution of the Newcastle-Madadeni economy and then to present-day characteristics and to its clothing sector.

[5] Based on presentations (to Clofed members) of findings on i) EU and US retailers' behaviour by Peter Gibbon and ii) of Asian production trends by John Thoburn in Cape Town in May 2005. In turn, this further strengthens the reputation of competitors to South Africa overseas making it difficult for firms that are losing their foreign orders to reverse the trends in the future.

3 THE EVOLUTION OF THE NEWCASTLE-MADADENI ECONOMY AND THE CURRENT CHARACTERISTICS OF ITS CLOTHING SECTOR

In order to understand circumstances pertaining to the current Newcastle-Madadeni economy it is important to understand the development trajectory it has followed. Clearly one cannot discount the impact of apartheid on the region. This took the form of the development of a geographically fragmented settlement pattern characterised by considerable investment unevenness and the related distortions in access to: (1) basic services; (2) education: (3) and healthcare. Drives to develop Newcastle and its surrounds formed part of explicit apartheid policies in the form of the decentralisation programme, which aimed to create conditions for employment outside the main urban centres so as to reinforce apartheid government arguments that the migration of black people to cities should be controlled.

However, such orchestrated policies which resulted in the development of the Iscor steel plant in the area did not live up to expectations of local authorities and a decision was taken to work to diversify the economy away from the Iscor plant. Newcastle began to rapidly establish itself as clothing production node of some significance. The combination of some large South African operated-firms and new entrants from Taiwan gave the local economy a critical mass together with other economic sectors. The following section discusses the evolutionary path of clothing production in the area and maps out its main characteristics in order to contextualise the main findings section of the report and the recommendations.

3.1 The Development of the Newcastle region and its economy: from the mid-1960s to the mid-1990s

3.1.1 The period of industrial expansion

Until the 1960s, Newcastle was a small, slow growing town based on mining and agriculture. With a population of 17544, it was smaller than neighbouring Ladysmith, which by 1960 had reached 22955 in population size. In the 1960s, Greater Newcastle grew rapidly as a consequence of forced removals of people from the region into the newly established townships of Madadeni and Osizweni. While population grew in the 1960s, employment lagged behind, and it was only in the 1970s, after the establishment of iron and steel producer, Iscor, in 1972, that the economy grew rapidly.

The 1970s were boom years for Newcastle. Iscor itself employed around 13000 people at its height in the 1970s, and industry linked to Iscor, or supporting its development, came into the town. Two large clothing factories which had moved to nearby Charlestown in the late 1950s also relocated to the town in the 1970s, following workers who had been removed from the area. Manufacturing employment increased from 5023 in 1970 to 19514 in 1982, and the number of firms similarly grew from 29 to 62 over the period (Todes, 1999). By 1980, manufacturing accounted for 34% of formal employment, and 49% of Gross Geographic Product. Formal employment nearly doubled, and rapid growth occurred in the commercial, financial, transport and service sectors. By 1984, Newcastle was the largest commercial centre in the region (Todes, 2001).

The location of Iscor in Newcastle was part of the apartheid government's industrial decentralisation policy, but the decision was made at the end of the long-boom of the 1960s, at a time when growth seemed unlimited. Even by the time the plant was established, recession had begun to result in reduced demand for steel, and the original plans for Iscor in Newcastle were downscaled. Economic crisis from the mid-1970s resulted in a contraction and recentralisation of the steel industry. From the early 1980s, Iscor began to rationalise its activities and its workforce. The volatility of the steel industry, and Iscor's responses to it, has underpinned a continuing process of rationalisation in Newcastle, as well as in plants across the country in more recent years. Employment in Iscor dropped to around 3500 in 2001. Rationalisation in the early 1980s also had an effect on linked and service industry, and on suppliers. Manufacturing employment dropped from 19514 in 1982 to 15544 in 1985 (Census of Manufacturing, 1982, 1985). Although a major chemical plant to some extent shored up employment in the town in the 1980s, it was mothballed in 1990, as international market conditions changed. While the site and the infrastructure of the firm were later reused, employment levels remained low. Other "heavy" industries in the metal industries continued to downsize in the 1990s. Numbers employed dropped from 9561 in 1990 to 6770 in 1994 (Todes, 1998a).

In the 1980s and 1990s, the loss of employment and economic activity in "heavy" industry was to some extent compensated for by the growth of the clothing industry, stabilising the local economy. As indicated above, some South African clothing industries had already located in the area in the 1970s, while others established in the 1980s, drawing on generous industrial decentralisation incentives that were available. By 1990, Newcastle municipal data (in Todes, 1998a) suggests that there were some 4940 jobs in 10 South African firms. The bulk of employment here was in the two original firms, which accounted for 59% of employment.

3.1.2 The establishment of clothing firms in the area

The establishment of South African clothing factories in the area was part of a broader process of the decentralisation of the clothing industry, beginning first with a movement from Gauteng to Durban and Cape Town in the 1930s, and then to more peripheral areas from the 1950s. The decentralisation of the clothing industry has historically been propelled by a search for lower wages in response to competitive pressures – a pattern which follows international trends, at least in the industry's more standardised or low market sectors. In apartheid South Africa, decentralisation was encouraged by a system of industrial decentralisation incentives (over the 1954 – 1996 period), and by constraints on the location of labour intensive industries in Gauteng in the 1970s. Although incentives and constraints have played a role in the decentralisation of the clothing industry, wage differentials are probably more important (Hart and Todes, 1997; Todes and Harrison, 1998), and continued to sustain movement of some sectors of the industry to peripheral areas once constraints and incentives had been abandoned. Wage differentials across areas were entrenched by the 1957 Wage Act, which instituted wage determination on a regional basis. Until 1994, the country was divided into five Industrial Council Areas covering metropolitan areas (where wages were bargained on a regional basis), Wage Determination Areas, independent and non-independent homelands. This meant that wages in non-metropolitan areas could be as low as 29% of the cities. No minimum wage was applicable in some homelands (and in KwaZulu), and wage differences in a functional area such as Newcastle-Madadeni could be substantial (Altman, 1994; Todes, 1998a; Smart, 2004).

In the South African context, decentralisation has been an important response to price pressures in the industry (Bell, 1983), and to growing union organisation, both of which accelerated from the 1980s. In the 1980s and 1990s, decentralisation has been pronounced in the KwaZulu-Natal province, where low cost production is dominant (Todes and Harrison, 1998). While many commentators argue that industrial decentralisation incentives accounted for movement to the periphery, trends in the 1990s indicate otherwise. In the 1991-1996 period decentralisation incentives were reduced and restructured towards more capital intensive industry, and also supported firms within parts of cities. Nevertheless, clothing and textiles accounted for 46% of employment generated in the scheme in KwaZulu-Natal, and two-thirds of growth was in peripheral areas (Harrison and Todes, 1996). Peripheral growth also occurred without incentives. According to Smart (2004), this pattern of decentralisation has continued: while the overall employment numbers have remained relatively stable (see Figure 2, page 5, except for the last period), there has been a redistribution of jobs to the periphery. Table 4 shows the spatial distribution of employment in clothing and knitwear in the province in 1996 – the last year in which a manufacturing census offering regional data was undertaken.

Table 4 indicates that while the clothing industry remained concentrated in Durban, which accounted for 59% of employment, and 74% of firms in 1996, significant centres of production were evident elsewhere in the province. Newcastle was the second largest production site for the clothing industry, and accounted for 18% of clothing employment in the province, and 8% of firms. The table shows the larger average size of firms outside of Durban, or the presence of a few large firms, as in Newcastle.

The growth of the clothing industry in Newcastle was not purely the result of industrial decentralisation. A significant part of the growth dynamic of the town since the mid-1980s has been linked to the growth of Asian clothing firms in the area, and particularly firms from Taiwan. In response to the decline of Iscor, the Newcastle municipality marketed itself in Asia, and particularly in Taiwan. Movement to South Africa was part of a broader shift out of Taiwan to cheaper locations, as the wages and exchange rates rose sharply (Hart, 1996, 2002; Pickles and Wood, 1989). Location in South Africa also allowed clothing firms an opportunity to avoid quotas on US markets, in terms of the Multifibre Agreement, which was operative at the time. Hart (2002) suggests that the Taiwanese were drawn into Newcastle by the personal approach of the Newcastle municipality, as well as other factors such as cheap land and suburban housing, lower crime rates than in cities, and lower wages and levels of union organisation there. Investors could also be offered incentives in terms of the prevailing Regional Industrial Development Programme (RIDP – or industrial decentralisation). By 1990, Asian firms accounted for some 3971 jobs in clothing, 43% of the sector.

Table 4. Spatial distribution of clothing and knitwear in KwaZulu-Natal, 1996

Area	No. of Firms	% of Firms	No. of Employees	% of Employees
Greater Durban (Region 48)	463	74	35991	59
PMB (Region 52)	7	1	2292	4
Port Shepstone (Region 53)	22	4	1538 (excluding 2 knitwear firms)	-
Mooi River (Region 54)	1	-	Figures not available	-
Ladysmith (Region 56)	26	4	2961 (excluding 5 knitwear firms)	-
Newcastle (Region 57)	53	8	11295	18
Lower Tugela (Region 59)	24	4	4490 (excluding 4 knitwear firms)	-
KZN Total	**625**	**100**	**61330**	**100**

Source: Census of Manufacturing 1996, Statistics on a Regional Basis, KwaZulu-Natal.

Notes:
1. The census does not provide employment numbers where the number of firms is small.
2. Place names refer to statistical regions, not simply the town, so for example, Newcastle in this table includes Newcastle, Utrecht, Dannhauser, Dundee and Glencoe. Employment by sector is not available on a more disaggregated basis.

The growth of the clothing industry in Newcastle shored up employment in the manufacturing sector. By the time of the 1991 manufacturing census, total manufacturing employment at 19641 was slightly higher than in 1982. However, a significant shift had occurred from industries employing mainly men at relatively good wages, to a low wage manufacturing economy, employing largely women. According to DBSA (1995) figures, overall employment in the local economy declined by 0.6% p.a. over the 1980-1991 period, while overall gross geographic product declined by 0.2% p.a., suggesting a less favourable spin-off into the local economy than had been the case before.

It is important to note that employment conditions for the bulk of workers in the sector were poor in relation to urban working conditions of workers in the similar activities. The "hang-over" of apartheid-based systems of control and labour repression continued to impact on the area during the 1990s. Active exclusion of SACTWU – the dominant union organising in the sector – from factory premises was common practice. Observers also comment that abuse of labour such as failure by firms to meet basic conditions and the failure to follow due procedure were common place. Whilst these conditions did not pertain in all firms, all stakeholders admit that there were problems that need to be taken into consideration when examining the performance of the sector in the area at the time.

3.1.3 The importance of the clothing sector in the mid-1990s for the workers

A social survey of Madadeni, Osizweni and Blaaubosch, which was conducted in 1995 and reported in Todes (1998b) attempted to understand the significance of clothing work to household economies, particularly given that statutory wages were only a third of household subsistence levels. Households containing clothing workers were 26% of all households, although the real figure might be higher, as the sample was somewhat skewed towards service workers. Clothing work accounted for 38% of women's employment at the time. The survey found that work in clothing was generally part of a multiple livelihood strategy. Only 20% of households had no other income source at all, and 36% of households had no other source of formal income. Female headed households were over-represented here. Several patterns emerged:

a) The largest group of clothing workers were daughters (41%) who lived in their parent's homes. Sons formed a further 15% of the total. In 56% of these households, income from clothing was a more limited source, alongside higher incomes from heavy industry or services. In 23% of these households, however, clothing income was the only formal source of income. In addition, income from clothing was the dominant source in 40% of these households, but in half of these cases there was more than one clothing worker in the household. Daughters were not generally young girls, with very few under 20.

b) Some 25% of clothing workers were wives. In most cases, incomes were also part of a multiple livelihood strategy, but in 35% of these households, they were the only source of income. Wives more often worked in South African clothing firms, where on average workers were older than in the Asian firms – although the differential is less than sometimes assumed. Some 48% of clothing workers in SA firms were over 35, compared to 34% in Asian industries.

c) Some 15% of clothing workers were heads of households, mainly women. Usually income from clothing work was supplemented by other sources of income such as remittances, pensions, domestic work, and home work, and sometimes more than one woman worked in factories. Incomes from clothing were however dominant in 50% of cases, and was the only formal income source in the household. Clothing work was not more important for female headed households than others, however. Some 24% of clothing workers were in female headed households, and 28% of female headed households contained clothing workers, compared to a norm of 24% for the area.

d) Migrants from rural areas. The survey found that this was a small proportion of the total (around 2%), although it might have been underrepresented in the survey. The popular view in the area at the time was that it was a much more significant grouping.

A detailed study of industry and the clothing sector in 1994/1995 by Hart and Todes and reported in Hart (1996, 2002) and Todes (1998a, 1999) suggested that in the early 1990s, the clothing industry was beginning to undergo restructuring as levels of import penetration rose (Altman, 1994), and as labour organization grew. In this context, several of the older South African firms closed or downsized and restructured themselves to greater competitiveness, sometimes introducing new technologies and management systems. In addition, several small South African cut-make-trim (CMT) firms became established. Asian firms also restructured. While several firms had intended to enter export markets, only a few managed to do so. Others, largely in knitwear, reoriented to the local market. Labour tensions were prevalent in many Asian factories, and firms found it difficult to achieve the productivity levels they required. Many firms restructured towards greater capital intensity, and some medium sized producers closed, but there was also a proliferation of small firms, some establishing *inter alia* to escape labour and wage regulations. In 1994, a Wage Determination regulation (15486) set new wage levels for the area, although firms with under 30 employees and a turnover of less than R450 000 were not bound by it. After the national elections, wage levels became applicable to the Madadeni area as well, although at this stage, there were few clothing firms located there.

The net effect of these changes was a slight decline in the number of clothing employees although the numbers of firms grew. There was a shift from 9282 employees in 40 firms in 1990, to 8868 in 62 firms in 1994, largely as a consequence of employment losses in the South African firms and the proliferation of small firms. Figures from the industrial census of 1993 also suggest a decline in overall manufacturing employment from 19641 in 1991 to 18066 in 1993 – due to restructuring in both heavy industry, and in clothing.

The 1996 Census of Manufacturing however suggests that manufacturing employment, and particularly clothing, picked up after this period, in particular with the establishment of Nantex, a large Singaporean company, employing over a 1000 workers, and set up as an export operation. The total manufacturing employment for Newcastle in 1996 was 21203 according to the manufacturing census, while employment in clothing and knitwear for Region 57 which includes Newcastle but also other areas (Utrecht, Dannhauser, Dundee, Glencoe) was 11295.

3.2 Changes since the mid-1990s

Unfortunately, there is a limited amount of quantitative data which helps to describe the Newcastle economy after 1996. No manufacturing census has been produced since then, and the last recording of Gross Geographic Product was in 1994. Population census figures for 1996 and 2001 provide a sense of changing overall employment and shifts in the structure of employment, but figures are not comparable with earlier census material both as a consequence of a redefinition of the boundaries of Newcastle as a magisterial district, and because of the different methodologies used in older and newer census material and the way they were adjusted for error. In addition, the categories used are not the same as in the past. Nevertheless, a comparison can be made for 1996 and 2001. Figures on Gross Geographic Value Added (GGVA) by magisterial district (based on estimates) provide an indication of changing output in the area from the 1996 to 2001 period.

Table 5 shows the structure of employment in Newcastle in 2001, while Table 6 presents the structure of output for that year. According to both sets of data, manufacturing is the largest single sector, and is proportionately more than its representation in the KwaZulu-Natal province. Manufacturing in 2001 accounted for 26% of employment and 37.2% of output, compared to 16.7% and 30.6% of provincial employment and output respectively. Manufacturing in Newcastle accounts for 5.5% of the provincial manufacturing employment, and 4% of provincial GGVA. Thus, while it is a critical sector for Newcastle, it is still a relatively small part of provincial manufacturing employment and output. Table 5 suggests that manufacturing employment has been relatively constant over the 1996-2001 period in Newcastle. It should however be noted that the absolute figures for manufacturing employment even in 1996 are much lower than the manufacturing census, which measured employment at the firm, rather than in the household. The missing figures may well be included in the very large number in the category "undetermined", which also distorts a sense of growth or decline by sector over time. While manufacturing employment appears to have been static, Table 6 suggests that manufacturing output has grown rapidly over the 1996-2001 at 3.6% p.a., compared to 1.7% p.a. for the province. It grew in dominance over the 1996-2001 period.

Table 5. Employment by industry in Newcastle, 1996 and 2001, KwaZulu-Natal 2001

	Newcastle 1996		Newcastle 2001		Annual Average Growth 1996-2001	KwaZulu-Natal 2001	
Sector	**No.**	**%**	**No.**	**%**	**%**	**No.**	**%**
Agriculture	1417	2.3	2158	3.8	10	142900	9
Mining	1394	2.2	563	1	-12	9090	0.5
Manufacture	14651	24.2	14864	26	0.3	267592	16.8
Utilities	821	1.3	414	0.7	-10	10717	0.7
Construction	2819	4.6	2089	3.6	-5	76294	4.8
Trade	6031	9.9	8402	14.7	8	1240811	15
Transport	2856	4.6	1983	3.4	-6	81830	5.1
Finance	2670	4.3	3063	5.3	3	134937	8.4
Services	11233	18.5	13113	23	3	318485	19.8
Private households	6697	11.1	4590	8	6	148419	9.2
Undetermined	10298	17	6042	10.5	-8	171196	10.7
Total Employed	60376	100	57285	100	-1	1602271	100

Source: Demarcation Board www.demarcation.org.za, downloaded on 12 and 24 March 2004, based on 1996 and 2001 census data.

Table 6. Distribution of gross geographic value added by industry in Newcastle, 1996 and 2001, KwaZulu-Natal 2001 (1995 constant prices)

	Newcastle 1996 %	Newcastle 2001 %	KwaZulu-Natal 2001 %	Annual Growth rate 1996-2001 %	
Sector				Newcastle	KZN
Agriculture	1.5	1.4	3.5	1	0.2
Mining	1.3	0.2	0.6	-27.1	-8.3
Manufacture	35.8	37.2	30.6	3.6	1.7
Utilities	3	2.9	2.6	1.8	0.8
Construction	2.5	2.5	3.2	2.5	0.2
Trade	7.2	7.6	12.4	3.6	1.1
Transport and Communications	7.3	8.7	11.7	6.3	4.3
Finance	9	11.1	15.6	7.1	5
Services	32.3	28.6	19.7	0.3	0.3
Total	100	100	100	2.8	1.9

Source: WEFA database

Note: This data is based on estimates using historical figures, sectoral data, and remuneration and turnover data from previous regional services councils (now district councils). Figures are benchmarked against provincial and national figures.

The small mining sector, once a key part of the local economy, continued to decline, reflecting the broader regional dynamics of North-Western KwaZulu-Natal. Newcastle is a major centre within a depressed region where coal mining has undergone decline, and this dynamic is also affecting the town. This is the main focus of Urban-Econ (2003).

Collectively, the tertiary sector emerged, by 2001, as a very significant sector with 14.7% of employment in trade, 5.3% in finance, and 23% in community, social and personal services. In total, these three sectors account for 43% of jobs in Newcastle's economy. These figures can be compared to those for the province: the proportion employed in the three sectors is similar at 43.2%, but numbers of finance are higher, and services are slightly lower. Provincial figures will tend to represent the main areas of employment (i.e. Durban) most strongly, thus the greater representation of finance is not surprising. Similar patterns are evident for GGVA (Table 6). Here, the three sectors account for 47.3% of Newcastle's GGVA, compared to 47.7% of the KZN GGVA (figures for 2001). In the case of GGVA, trade and finance in Newcastle are relatively smaller than in KZN, while services are larger, suggesting the greater importance of public services in the Newcastle economy. The Newcastle figures also corroborate the view that the town has become a major regional service sector. Growth in these sectors has been rapid over the 1996-2001 period, with growth rates in employment ranging from 3% p.a. in finance and services to 8% p.a. in trade. Growth in GGVA in trade and finance has also been rapid at 3.6% p.a. and 7.1% p.a. respectively – in both cases outpacing the province. GGVA growth has also been faster than in neighbouring Ladysmith at 1.8% p.a. in trade and 2.5% p.a. in finance. Growth in GGVA in services was however slower at 1.5% p.a. in Newcastle – the same as for the province. In the focus group discussion, representatives from the banking sector argued that Newcastle serves an area of 200km and beyond, and based on business plans for applications for finance, they argued that some 60% of consumption comes from out of town. The significance of the tertiary sector has perhaps been under-recognised in the town's strategic economic thinking.

Levels of employment overall declined by 1% between 1996 and 2001, and unemployment rose from 40% in 1996 to 54% in 2001. Nevertheless, the area grew relatively rapidly at 2.8% p.a. in terms of output – outpacing South Africa as a whole (2.2% p.a.), KZN (1.9% p.a.), and neighbouring Ladysmith (1.7% p.a.). In-migration into the area continued to occur, partly accounting for the sharp rise in unemployment over the period. Population in the area grew by 3% p.a., compared to a national growth rate of 2% p.a. In general terms therefore, the Newcastle economy appears to have grown in terms of output, but a level of job shedding has occurred. However, manufacturing employment was stable, and employment growth appears to have occurred in the tertiary sector.

Within manufacturing, employment levels in heavy industry have continued to decline, mainly as a consequence of continuing restructuring with Iscor. Drawing on a telephonic survey of industries in 2001, employment levels in metals and chemicals declined from 6770 in 1994, to around 4914 in 2001, while employment in other industries (excluding clothing and small service industries) declined from 1347 to around 843 over the same period. Several manufacturing firms serving the local economy appear to have closed or shifted to retail and distribution only. These figures are not definitive however, and the area would benefit from a more systematic survey of industry in the area. Data on GGVA suggests that despite employment losses, output growth in all manufacturing sectors was positive. Output growth in "heavy" industry was strong, and accounted for much of the growth of manufacturing output over the 1996-2001 period. The important metals sector grew by 3.6% p.a. in terms of output, while chemicals grew by 4.2% p.a. These figures are consistent with continuing capital intensification.

3.3 The clothing sector in 2001

Output (GGVA) in the clothing industry also grew up to 2001, but at a much slower rate (0.5%) than in heavy industry. This can be compared to declines in clothing output for KZN (-2.9% p.a.), suggesting that the relative position of clothing in Newcastle in the period was relatively strong. Over the 1996-2001 period, clothing employment appears to have been stable, and might even have grown. Gibbon (2002) estimates that there were some 10000 people employed in clothing in the area, including in Charlestown, which now forms part of the town. Only two of the large South African firms remained by 2001, but these increased their levels of employment from the mid-1990s. Employment in South African firms now dropped to around 40% - far lower than was the case in 1994. Employment in the large Asian exporters grew, and another large Asian firm located in the area in this period. One of the smaller Asian firms shifted towards an export market and grew substantially. In addition, several firms came in from mainland China, often intending to orient to export markets. By 2001, the bulk of employment (around 80%) was in large firms employing over 500 workers. The remainder were in small, largely Taiwanese or Chinese firms employing less than 80 workers, and oriented to the domestic market. Estimates of the number of these firms ranged from 45 to 100, according to Gibbon (2002).

Changes in Newcastle clothing in the period reflected the continuing dynamic of the local economy as well as shifting global conditions. South Africa's agreement to wind-down tariffs rapidly meant that by 2001, they stood at 48% for the sector, but weak policing of the ports meant lower levels of protection. By 2001, levels of import penetration into South African retail rose to 33% (Gibbon, 2002). Gibbon (2002) comments that a combination of high buyer power, competition between retailers, and the availability of imports put pressure on producers for the domestic market.[6] Several retailers took their long-run production off-shore, forcing local producers into short runs with short lead times. Where long-run production occurred locally, it was increasingly forced to peripheral areas, where statutory minimum wages had remained the same since the 1994 Wage Determination regulation. In this context, decentralisation accelerated, and many firms went "underground" or informalised (Gibbon, 2002; see also Skinner and Valodia, 2001). Employment in areas registered with Bargaining Councils dropped by 40%, and even more so in KwaZulu-Natal.

Conditions for exporters however improved as levels of protection on textiles declined and exporters were able to use imported fabric on a duty-free basis. The EU-SA Free Trade agreement and AGOA theoretically opened up export opportunities from 2000/1 - although the impact of the former was overridden by the impact of the latter. The period saw a rapid growth in clothing employment in Lesotho and Swaziland, despite increases in wage levels

[6] Prices paid to the producers are reported to have remained static for 5-7 years.

to above those in South African decentralised areas (Gibbon, 2002). Gibbon comments that South African models of diverse lines, high cost and low productivity has made it difficult for South African firms to compete in export markets, or to decentralise effectively to peripheral areas. Asian firms based on a global contractor model could more easily adapt to lower skill levels, and were better linked into US markets. These dynamics are evident in Newcastle.

4 THE CURRENT STATE OF THE CLOTHING SECTOR IN NEWCASTLE-MADADENI

4.1 Introduction

Since 2001, conditions appear to have worsened sharply for industry in Newcastle. Several firms have shut down, or have reduced their numbers of workers drastically. Others have increased the use of short-time. There has been a notable shift to importing and selling as opposed to manufacturing. These shifts are most sharply evident amongst exporters, which have either drastically scaled back their operations, or shifted towards the local market. Several of the smaller firms that had intended to export have become CMT producers for the local market. Several new pressures appear to exist:

- The rising value of the Rand since 2002 has undermined the competitiveness of SA products in international markets;

- Statutory wage levels have risen sharply since 2000. In 1999 the system of wage determination was replaced by Sectoral Determinations (SDs), although these only came into effect from November 2000. This preserved the older divide between metropolitan (including peripheral metropolitan) and non-metropolitan areas, but increased wages sharply after a period in which wage levels had remained constant from 1994. Wages for qualified workers in Newcastle rose from R109.60 per week to R236.76 per week. The introduction of a National Bargaining Council (NBC) has shifted minimum wages to R301.95 as from July 2003, a rate of some 60% of those in the cities (Figure 5). For industrialists, statutory minimum wages have increased sharply over a short period of time, although a group of manufacturers in Newcastle operate under agreements which exceed these minimum wages. While the SDs were meant to be policed by the Department of Labour, the NBC system gives greater teeth, including powers to seize property and assets of firms which have been proven in court to be non-compliant. The changing regime has elicited a flurry of concern amongst Asian industrialists who argue that productivity levels do not allow them to remain competitive on international markets. A grouping is currently challenging the "procedure" associated with the NBC agreement in court although there were grounds for an intervention of one sort or another to address the wage inequalities of the past.[7]

[7] Some basic data analysis shows that prescribed wage increases for Newcastle coincided with a pattern of inflation adjustment (selected indices of data from NBC and series KBP7031J of the South African Reserve Bank are reported below – table on the next page). This is important bearing in mind that low and stagnant wages in the sectors were paid to the workers over long periods of time.

- The death of twins born in a Newcastle Asian factory in which workers were locked in in 2000 has increased scrutiny of labour conditions in these factories. In a subsequent series of unannounced visits by government departments, widespread evasions of health, safety and wage levels were found (Gibbon, 2002). Ongoing unannounced visits by a variety of departments monitoring various forms of evasion of laws were referred to in several interviews with Asian firms. Respondents argued that the environment was becoming increasingly unsupportive.

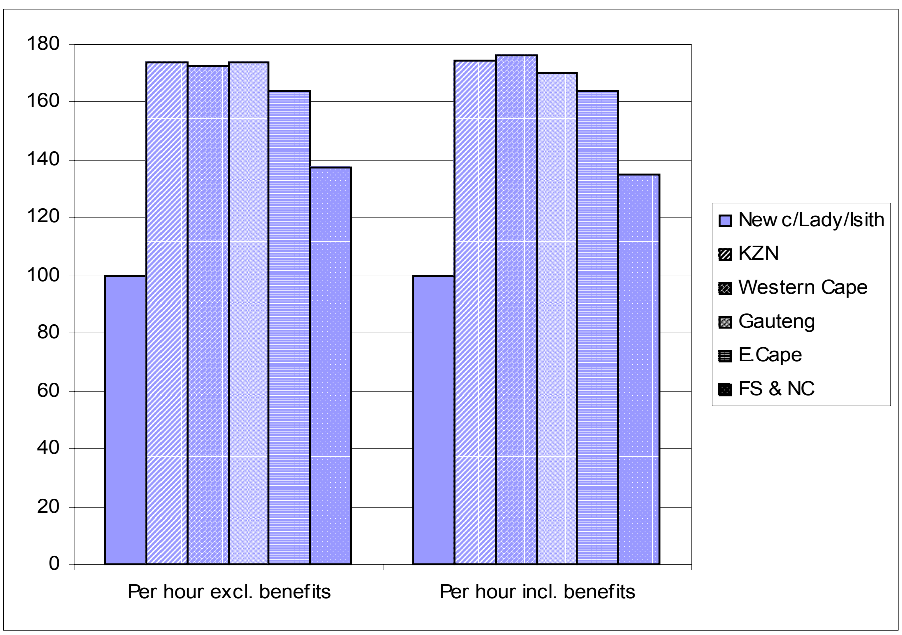
- Rising HIV/AIDS prevalences are also reportedly reducing levels of productivity.

- Firms claim that welfare payments, and particularly the child support grant is providing an alternative to work, and that considerable time is used to collect grants, undermining productivity.

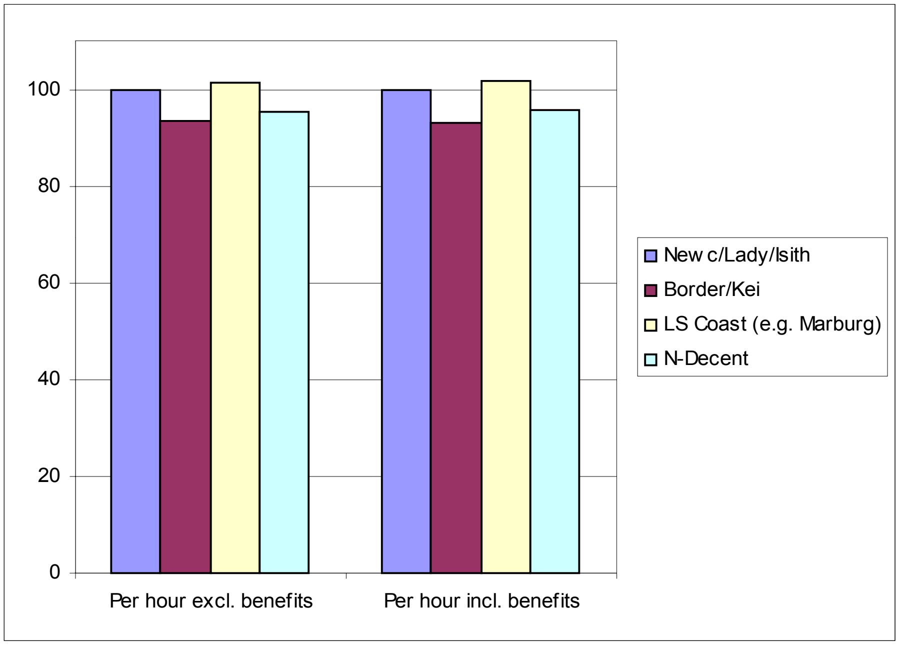
- Although unions are not well established outside of SA firms, their growing power is seen as a threat by manufacturers. This is in a context in which few Newcastle firms are currently unionised or where the unionisation rate is comparatively low. The two trade unions in Newcastle firms are SACTWU and the United People's Union of South Africa (UPUSA).

Having exposed the main current pressures, we can turn to the role of the clothing sector.

Figure 5. Relative clothing wage rate differentials, July 2003 (indices, Newcastle, Ladysmith, Isithebe=100)



	1994	1997	2003 (up to July)
Wage for a SD4B/cat. B qualified machinist	100.0	103.4	216.0
Consumer prices of goods. Total for metropolitan areas	100.0	123.3	184.0



Source: National Bargaining Council for the clothing industry.

Note: Wage differentials calculated for a SD4B/category B qualified machinist.

Clothing is an important contributor to the KZN economy.[8] The sector amounted to 14% of KZN output according to the 1996 Manufacturing Census. Also, in terms of the provincial distribution of GGVA generated by textiles and clothing, KZN comes second after the Western Cape (respectively 33.7% and 34.5% according to WEFA data for 2001). Yet, the sector only amounts to 5.3% of total KZN GGVA. Within KZN, the sector appears to be comparatively small in Newcastle (Table 7). However, the dominance of Durban partially reflects the presence of larger clothing firms as well as of more capital intensive textile firms in that area compared to other magisterial districts.

Table 7. Distribution of textiles and clothing GGVA across KZN magisterial districts, 2001

Magisterial district	Contribution to KZN textiles and clothing GGVA (%)
Durban	48.4
Pinetown	14.4
Inanda	7.2
Pietermaritzburg	5.1
Camperdown	4
Kliprivier	4
Newcastle	3.2
Other	13.7
	Total = 100

[8] In what follows clothing refers to apparel broadly defined. As should be clear *some* classifications integrate knitted apparel items into the knitted segment – e.g. together with the production of knitted fabrics. On the other hand the Harmonised System (HS) nomenclature distinguishes the two main sectors and corresponding sub-sectors. The features of firms involved in jersey production are discussed separately whenever relevant.

Source: WEFA database.

Note: The data available to the researchers aggregates textiles and clothing.

The clothing sector is important for Newcastle. In 2001 it was estimated that 7.2% of the district's GGVA was in the sector; "textiles and clothing" comes (as expected with the presence of Iscor) second after "metal products, machinery & household appliance". The latter amounts to 77.15% of the district's GGVA. In contrast, focusing on the clothing sector's contribution to employment paints a substantially different picture of the sector's importance. We focus next on this aspect of the sector presenting key figures obtained from a variety of sources. Data have been gathered:

1) from key informants;
2) from the existing list of firms available at the Newcastle Municipality;
3) and from the most recent list of firms from the National Bargaining Council for the clothing industry (list of the 24/03/04).

There are issues with the data. As already emphasised, an up to date register of firms and of their activities in Newcastle and Madadeni (which firms are in operation, what are the goods produced, size etc.) is lacking. Moreover, no time series data is available. The analysis thus requires that information obtained from various sources be triangulated. Tentatively, of the 58 firms reported by the NBC, 34 are new (since the list done for 2001, and certainly since 1994) suggesting entry and exit of firms over the period. The NBC has informed the researchers that, in fact, 72 firms operate in Newcastle-Madadeni (compared to 62 clothing firms in operation in 1994). Moreover, there is an estimated shortfall of 3500 employees on the current NBC list for that area. The shortfall for KZN is assessed to be of 10000 employees reflecting that a core of firms still has to register their employees. These figures are used to produce "upper" estimates noting however that current employment figures reported to the researchers in Newcastle are currently below NBC numbers. (This is mostly because of the lag in data updating in a sector in which employment is highly seasonal.)

Bearing in mind that the contribution of the sector varies across sources (and depending on the reliability of the estimates), the following points emerge from the available data:

- About 15% of Newcastle's total employment is in clothing. More specifically a large proportion of total manufacturing employment in the Newcastle area would be in clothing (the figure would range between 37% and 61% - using the current NBC total and their estimate and current demarcation board data);[9]

- At a broader level, employment in clothing firms in Newcastle, Madadeni and Charlestown would amount to between 14.8% and 19.2% of KZN clothing employment (respectively excluding and including firms with employees not registered with the NBC). Again using NBC figures, about 11% of KZN clothing firms would be in the area;

[9] Variations are important because the manufacturing employment base is small.

- Finally and significantly, between 5% and 8% of South Africa's employment in clothing would be located in the Newcastle area (respectively using lower and upper NBC total).

The above figures suggest that the performance of the clothing firms in the area matters for a more general assessment of the sector within the Province and South Africa at large. Moreover, the people of Newcastle are dependent on the sector as a source of employment. Iscor with another 3000 employees accounts for another 20.5% of manufacturing employment although the jobs in the metal sector are of a different nature (in terms of race and gender composition, level of skills etc.). Put differently, Newcastle has a particularly narrow sectoral employment base.

4.2 A diversity of firms

Having stressed the importance of the clothing firms for the local economy, it should be borne in mind that a great variety of firms operate in Newcastle. Besides 2 small scale operators reported to be operating in the (Madadeni) area,[10] the terrain is currently dominated by small and medium size firms; 63.1% of Newcastle clothing firms would have less than 250 employees (Table 8). Foreign firms in the knitted product segment generally dominate this segment.[11] A group consisting of 11 medium size clothing firms (each employing 250 to 300 workers) and which operate in the woven segment are located in Madadeni. These are owned by Chinese entrepreneurs. According to information gathered from key informants, these firms would absorb another 25% of clothing employees. Yet, whilst small firms dominate in numbers, the top five large firms would account for approximately half of total Newcastle-Madadeni clothing employment. This bimodal distribution of employment across firm size explains why the average firm size is about 280 employees.[12]

Table 8. Distribution of clothing firms in Newcastle, Madadeni and Charlestown according to size (n=19)

Size (No. of employees)	%
[1-30[	31.6
[30-50[	15.8
[50-100[	10.5
[100-250[	5.3
[250-500[	10.5
[500-1000[	15.8
1000 +	10.5
	100

Source: NBC list of firms of 24/03/04.

[10] In both cases these were former employees of large firms. One is involved with the production of schoolwear and uniforms for Eskom.

[11] Taiwanese firms were relatively small from the start but grew subsequently. In the early 1990s Taiwanese firms with less than 30 employees were predominant but the average figure for the Taiwanese newcomers varied between 85 and 160 employees (Hart, 2002).

[12] Based on data for the 19 NBC firms that have registered their employees.

A specific set of trends seems to characterise the large clothing firms in Newcastle. These firms are important in specific ways.

1) this group is composed of large exporters (e.g. Nantex, Nova, Sandown) for which the exchange rate level, the DCCS, and access to high quality fabrics for foreign customers are crucial. Undoubtedly, Allwear further figures in this group although a smaller proportion of this firm's production is exported than other firms interviewed. Yet, the important recent difficulties faced by the firms in Newcastle have caused a notable shift of these firms away from the large group insofar as they now employ generally less than 1000 employees. Another firm, Richfin, is a notable case in point of this trend (Table 9).[13]

2) the firms which appeared the most resistant to an adverse trade and production environment are the two larger South African firms. These appear to have maintained their workforce over time. Having said that, it is important to note that the employment base appears to have been maintained through changes in shift types - some firms reported having moved a large proportion of their workers to short time.

Table 9. Employment levels in some medium and large Newcastle clothing firms

	2002/2003 employees	According to NBC	At time of interview, 2004
Nova (Hong Kong)	1200 to 1000	-	1000
Nantex (Singapore)	1800 to 1000	539	88 permanent
Allwear (SA)	1800 to 1200	1374	1400
Sandown (SA)	1800	1267	-
Richfin (China)	Set up for 1000 emp. – dropped in 2003 to 300 employees	-	150
Welcome Textiles (China)	700	340	-
Jendas (Taiwan/SA)	700	-	350
Jinghua (China)	320 to 330		200
Uncle Li (China)		- (not listed)	150

Source: Based on communication with key informants, NBC data and firm interviews.

Three points are associated with these observations.

1) The reduction in the number of workers employed underlies the difficult conditions in which the large firms operate. The trend is more difficult to isolate for the smaller firms. Whilst firm closure rate data is not available, it is clear that the smaller firms in Newcastle have markedly shifted towards trading functions as a medium term coping strategy. However, whilst this is observation is not new and was identified in previous field visits by Hart (1996) and Todes (1998b), it is

[13] It is important to stress that interviews however happened at a low production time before new orders are generated. Firms were then awaiting Easter orders for the domestic market and mid-season or additional summer orders from their foreign customers. According to Statistics South Africa monthly employment data, employment was however, on average, at its lowest in the second quarter of the year over the 1993 to 2003 period (with some exceptions across years however when lowest figures were recorded in the first quarter).

important to emphasise that the strategy of the smaller firms is currently one of sourcing cheaply on the behalf of buyers. The managers of the small firms further report producing at a fraction of their production capacity. With only 1 to 2 in 10 machines operating on an *ad hoc* basis, most machines are now kept idle in warehouse-type conditions waiting to be disposed of. Another coping strategy lies with revenues being generated through factory shops with large amount of sales through that channel occurring prior to Christmas (garments as well as white consumer goods are found in such shops). Garments are sold (in large quantities at times) to people who come from outside the Province (specific mentions were made of buyers coming from Mpumalanga) who act as distributors or salesmen elsewhere. According to the firms, such sales failed to materialise in December 2003. As production data is missing, it not possible to precisely document the extent of the downturn within this group of firms however.[14] However, in spite of a *relatively* stable number of firms over time, which suggests that the clothing firms in the area have been resilient, 2002/2003 is likely to have been a period of net exit from the industry in the area. More worryingly, some medium size-firms are currently confronting bankruptcy.

2) In the long term, issues will emerge in the direction of re-engaging the firms with new prospects. As workers are laid off or operate on short shift, the human capital production base shrinks. Knowledge acquired by management is further eroded when this layer of employees is streamlined. Moreover, human resources departments typically disappear or become under-resourced in periods of production difficulties.

3) Finally it should be clear that, in parallel to the changes, the contraction of the sector will undermine the revenues which the local authority generates from the industrial base. In parallel, more resources will have to be found to cater for the need of those laid off.

Interestingly, some amount of interest for clothing production in Madadeni exists. Several recent investment projects have established in Madadeni. These are replacing firms that have moved away from the area into Newcastle or closed down several years ago. In the words of one key informant in the area:

> "If we look at employment, we are just as concerned as you are. In the past there were lots of [large] firms in this area [Madadeni]. In the past, people were dependent upon these factories. These have left. … [Otherwise, about the clothing firms here] there is not much change. Jobs are coming back. New people (in clothing) are coming back."

Although over-optimistic, the above statement suggests that the sector has, in parts of Newcastle, incurred lots of adjustments over a long term horizon. What is further at stake here is that the area was, until recently, still attractive to investors. Newcomers in South Africa still benefit from some support measures. According to one foreign Madadeni clothing manager, government incentives mattered in his choice of South Africa. In

[14] Historically moreover, the existence of a base of small firms is linked to production difficulties and to labour regulations requirements. Moreover, there was a link between small and medium size firms in Newcastle through technicians formerly employed by medium size firms setting up their own smaller clothing business - see Hart (2002) on the situation in the mid-1990s.

parallel, the Municipality has successfully approached and influenced some firms' choice of location in the direction of Newcastle. The incentives at hand are those associated with the Small and Medium Enterprise Development Programme (the SMEDP) and the relocation grant or cash incentive scheme that is available to foreign investors. The former is a left over from the RIDP. Both schemes encourage investments in assets (equipment and machinery). However, it is important to stress that a core of Madadeni Chinese firms currently forms the contingent of firms that is in dispute with the NBC. For the future, the *continued* presence of these firms might rely heavily on the judicial outcome of the dispute.

It should be clear that a feature relatively specific to Newcastle-Madadeni and Charlestown is the continued "dominance" of foreign firms. Beyond the two large South African firms, and four other small to medium South African firms,[15] Newcastle is markedly dominated by foreign clothing firms. A large number of Asian (mainly from Taiwan but also from mainland China and Hong Kong) clothing firms are present in the area: literally, over 90% of Newcastle clothing firms would have a foreign origin. Moreover in 2003, the bulk of Taiwanese firms in the clothing (garments and knitted sweaters) that are located in South Africa was in Newcastle; 48 of all 280 Taiwanese factories operating in industry in South Africa are in Newcastle. KZN "plays host to 40 percent of all [industrial] Taiwanese firms" according to Du Ling (2003).[16]

There are some differences in types of goods produced which overlap with location and firm origin. As already specified, the medium size Chinese firms of Madadeni are involved with woven apparel production. Taiwanese clothing firms are involved in knitted goods (jerseys, "clothing" and accessories – gloves etc.) in Newcastle. One Filipino clothing firm is also located there.

Table 10 shows that there is a great diversity of products which emerge from Newcastle. This variety cannot be typologised in any obvious model however (for instance within the socks factories group, Jendas is medium size with 350 employees and partially turned to foreign markets).

Table 10. Variety of clothing items produced in Newcastle

	Socks	Jerseys/clothing	Woven segment (cotton)	Denim
No. of Factories	5	40 to 60 including 20 who can "do clothing"	16 (including 5 CMTs)	1 + 3 CMT

Source: Communication with key informants, 2004.

	Socks	Jerseys	Clothing / T-shirts	Children & women	Embroidery	Menswear	Jeans	Other	Unspecified
No. of Firms	5	31	3	3	2	2	1	1	17

Source: NBC data.

[15] Including one firm whose production was halted by the trade union on the basis of the prevailing wage level.

[16] According to the author, 20 of the 340 Taiwanese businesses in the "commercial and service sectors" are in Newcastle.

4.3 Main issues and current coping strategies

A series of issues are regularly reported by the clothing firms in Newcastle in the process of interviews and individual discussions. Most common mentions are made of the following:

- Currency strength;
- Retail pressure;
- Labour cost too high;
- Labour productivity is poor …
- … and, in parallel, the incidence of HIV/AIDS high (see McIntosh Xaba & Associates, 2003);
- Illegal imports
- State regulations/ interference/ harassment in parallel to …
- … a lack of active state support (investment, training etc.)

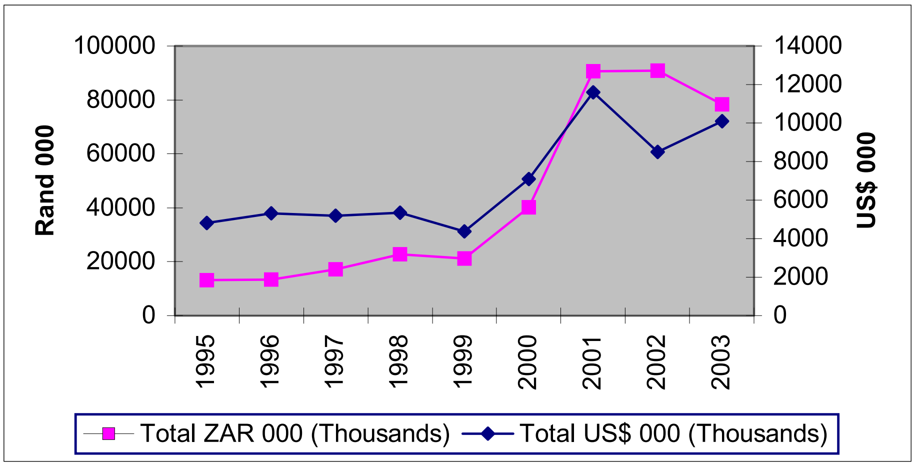
Although some of the above comments are in line with trends or characteristics of the sector already exposed, some of the above aspects are worth setting out at greater length. We briefly discuss next retail pressures and labour productivity issues together with some of the cost-cutting measures implemented by the firms, changes in the pipeline and areas for new product changes as these were discussed by the firms themselves. We then set out a small discussion of communication issues as these were raised in the course of focus group discussion.

- Retail pressures take many forms. The Taiwanese producers are primarily turned towards the domestic market in the knitwear segment (jerseys and socks of synthetic fibres). This is a sector in which competition has grown - imports having grown relatively sharply recently (part 1 of Figure 6 shows that import grew markedly between 1999 and 2001). Part 2 of the Figure shows that although cotton and specialised fibre sweaters, pullovers and vests were important in the composition of imports, imports of manmade fibres knitted tops grew in 2000 and 2001. Whilst detailed information about domestic production would be required to properly assess whether import penetration has in fact increased, physical volumes of production have declined markedly over a 10 year period (see MPI31300 series of Statistics South Africa) suggesting this to be the case. Yet, in rather sharp contrast however, South Africa had a growing trade surplus in the cotton and man-made fibre sweaters, pullovers and vests sub-segments between 1995 and 2003. What this suggests is sub-segment specialisation and the fact that some South African firms in this particular sector turned away from the local market towards foreign markets over the period.

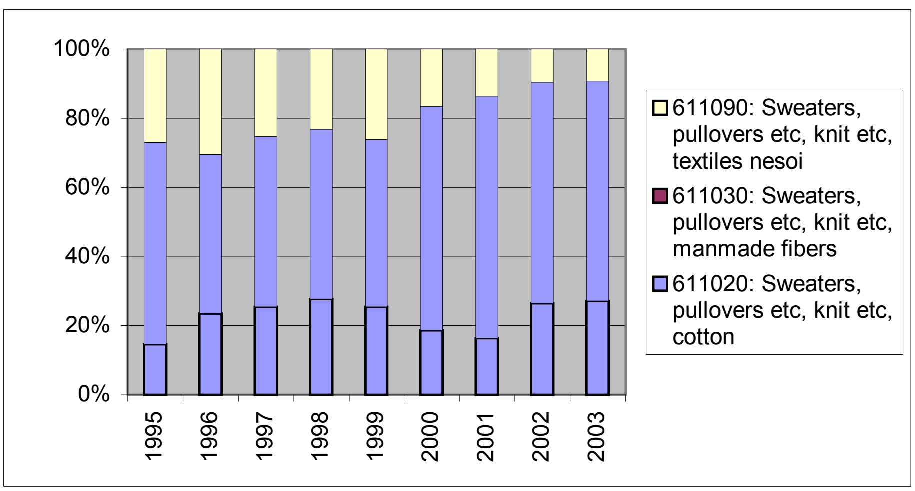
  Firms commented on the retail pressures around the price at which goods are sold by retailers. On a jersey, a retailer would make a mark-up of about 43% according to one key informant. According to another key informant, whilst consumers can find a pair of imported socks at 1.2 Rand in Gauteng, locally produced socks cannot compete – the local manufacturing cost for a pair is of the order of 2 Rand. Another one reported the figure that as much as 300% margins are made by chain stores. It is on the basis of shop prices that producers assess the origin of the garments. Whilst disputed by another key informant in Durban, a key informant in Newcastle estimates that *over* 40% of the sales by some major South African retailers originate from imported goods. This figure is broadly in line with that of Gibbon (2002) reported earlier.

Another barrier facing the smaller firms is with establishing retail connections. The barrier lies with difficult terms of payment. One respondent emphasised that whereas it took between 60 and 90 days to secure payment from a chain store, wholesalers make this payment more rapidly (upfront or up to a two month turnover basis). CMT was, in one case, similarly motivated on financial grounds - a 30% deposit is made to the producer with the pre-orders.

Figure 6. Imports of sweaters, pullovers and vests into South Africa (total for HS 6110 and by main fibre types excluding wool)



Source: TIPS Trade database.



Source: *Ibid*.

Note: Based on harmonised system (HS) classification of goods.

- As for labour productivity, references to the fact that the level of productivity is poor does not exclude that progress has been made over time. However, the point expresses the pressures which are exerted onto the firms and issues in terms of the means available to the firms to engage with the *necessary* level of adjustments. It is *partially* on such grounds that an International Labour Organisation (ILO) benchmarking project has been launched. Only two South African firms in Newcastle have engaged in this project. Although attempts were made under the ILO project to *specifically* engage the foreign firms into enhancing productivity together with labour-relations, the project was initiated at a time of conflictual labour relations; entry in the project required that basic conditions of employment be met and the commitment by the firms that they would register with the NBC. The conditions were deemed too onerous by the foreign firms approached.[17] From 10 Newcastle and Ladysmith firms initially engaged with the ILO project, the number of firms from Newcastle remained 2. 10 firms now in the project are from Ladysmith.

Although all the firms acknowledge (directly or indirectly) that the major issue they face is with aligning wage levels with productivity levels, the ways in which they could engage with productivity and efficiency improvements further (or nearer to the requirements) are not evident to them. The strategies set out by two larger firms in Newcastle as productivity/production enhancing steps were a plan to employ specialised foreign technicians and a plan to re-arrange the floorshop/production lines. Positions towards training are, in contrast, varied although these were perceived as important. Whilst some firms have expressed demand for training to be developed externally, other firms favoured in-house training. However, it appeared that no firm has so far applied for training projects to the SETA.

- Having reported some main issues around labour costs and competitive pressures, some firms noted that they had engaged in cost cutting steps. Setting aside the issue of shift changes and of resisting labour wage increases, these were achieved in one case by re-organising the supply of trims and in another case by outsourcing the logistics functions.

- Firms noted that they had gained some leverage over national textile suppliers. Whilst it is clear that this leverage is associated with cheaper textiles, fabrics and yarns available from outside South Africa (as induced by the strong Rand), firms still commented on the generally high cost of fabrics available locally; even allowing for import duty, the fact that foreign fabrics remain cheaper creates competitive pressures for the South African textiles firms. Thus, by and large the firms import their textiles/fabrics (although there are again some important exceptions to this);
    - In the woven apparel segment, as firms in Taiwan are relocating to China *grege* fabrics is available at 50-70% of its normal price. Whilst this is an interesting import niche, the pattern for the exporting firms is mixed in this regard as there is a potential trade off between price and quality. Quality is typically better controlled when there is a short geographical distance between a textiles supplier and a clothing producer. This, in turn, might be more important to the South African firms when these are less confident about the quality reputation of a foreign textile producer.

[17] The project entails benchmarking firms' performance. It thereby requires firms to disclose key indicators of performance.

- In the knitwear segment, new products opportunities emerged locally (and nationally) in the use and availability of new yarns – as occurred with the establishment of Richfin. Here again, however, cheaper yarns are available internationally. As dyed yarns are available in South Africa at 27 Rand per kg, these can be found elsewhere at 2.5US$ per kg (17 Rand per kg now compared to 26 Rand per kg in 2002). Thereby, some amount of yarn/fibre import remains.

It generally appeared that the *foreign* firms in Newcastle are in a position to tap on their connection overseas in order to secure cheaper textiles. This still somewhat contrasts with the South African firms as these lack such connections. Moreover, there is a risk involved for firms that are engaged with the production of repeated garments (large units of identical garments) to connect with a new foreign supplier for reasons specified above (in particular in the schoolwear or uniform segment where colour continuity is important).

Table 11 reports the main features which emerged from discussions with individual firms and key informants according to firm size. As should be clear, the nature of the clothing industry in Newcastle is complex and multi-faceted. Some characteristics (job losses, textile price decline, subcontracting, limited production-enhancing initiatives) are shared across firm types. As for the dimensions that are not shared, they make a difficult basis for co-operation.

Table 11. Typology of Newcastle-Madadeni firms, 2004

	Smaller firms (up to 100 employees)	**Medium firms (100 to 500 employees)**	**Larger firms (500 + employees)**
Characteristic / change	Knitwear / jerseys, socks & accessories	Socks, knitted & woven apparel	Woven apparel
Job losses	X	X	X except 2 firms which have an apparent stable number of employees Shift from large to medium size Shift of employees to short time
Closure/threat of closure	X	X but some exceptions Replacement in Madadeni	? ? - NBC case outcome?
Relocation	No	Reported to take place to Lesotho	Possible for foreign exporting firms - 1 case of new branch in Swaziland
Order losses	X	X	X *vs.* taking over the orders of shut down firms
Buyers National buyers: *i) General*	X – including marked CMT features	X – including CMT features	X - – including some CMT
ii) Wholesalers	*X*	?	No
International buyers		X limited?	X still important for that group but firms increasingly shifting to the domestic market
Subcontracting	X	Extent is unclear	X - some / pressure from the top
Textile leverage	X - import of *grège* fabrics at a discount following relocation of firms from Taiwan to China	X - 2001 textile factory set up initiated to the benefits of knitwear firms	X - price decline of imported fabrics & yarns from currency & national price pressures on the textile sector.
Looking into production-related changes	No	Limited	X Firm specific strategies (employment of skilled foreigners, specialised machinery, benchmarking)
Other linkage development	No However, changes in activities - shift towards importing or supplying electronic goods, toys & finished garments		Anecdotal & specific (accessories or logistics)

Other issues facing the sector were raised externally, in the context of focus group discussion. Whilst the discussion emphasised different constraints of competitiveness than those set out so far (reported in Figure 7, page 34), a new problem area raised entailed a lack of transparency and communication as an aspect of the sector. This refers to cultural determinants of performance as well as to the currently difficult interactions between the firms. The point needs to be stressed of cultural differences across and between various firms that operate in Newcastle. As the foreign firms still make use of their Asian connections,[18] they are typically better integrated into the international arena (and possibly still better placed than the South African firms in numerous ways). However belonging to a common culture does not systematically afford protection. When orders and sales are scarce and times difficult, the local social network offers little support; the larger foreign firms by offering low prices in order to secure whatever orders are available set a price precedent in the area.[19] This in turn, undermines the independence of the smaller firms when these act as sub-contractor for other larger firms. At the same time it causes the production structure to evolve. If times are really hard – as reported to be the case to the researchers in the course of this project, then it is the survival of the smaller foreign firms that is under threat. One small Taiwanese producer commented on such grounds:

> "People are not embedded here, business can happen anywhere. The Chinese culture is one of competition. There is *throat cutting* competition between the 'Chinese'!"

4.4 Conclusion

A series of difficulties affect the firms in Newcastle; the *smaller* firms are competing with the medium and larger size firms over a "shrinking" South Africa market. Whilst these firms face specific difficulties in the area of finance for production purposes, *all* firms face logistics, highly unstable demand and productivity problems (Figure 7). Next, *most* firms in the area face labour relation problems and operate a traditional outdated model of manufacturing layout (see comments on "factor conditions", on "firm strategy, structure and rivalry" as well as on "demand conditions" in Figure 7). In such a context, the formation of a cluster as at least recommended by some consultants would help to secure some cost reductions through economies of scale and of agglomeration. One of the issues with the latter strategy however is that it requires i) a critical mass of firms and ii) secure or growing production or production prospects.[20] The clothing sector in Newcastle does not by and large obviously display the aforementioned features. The scene is also different from that reported for the sector in Urban Econ – Development Economists (2003: 31). Instead, co-operation failures (across firms, and between management and employees) in the area appear critical and a more urgent arena for public intervention. This observation underlies the bulk of the recommendations as they are set out in the next section. Moreover, the role

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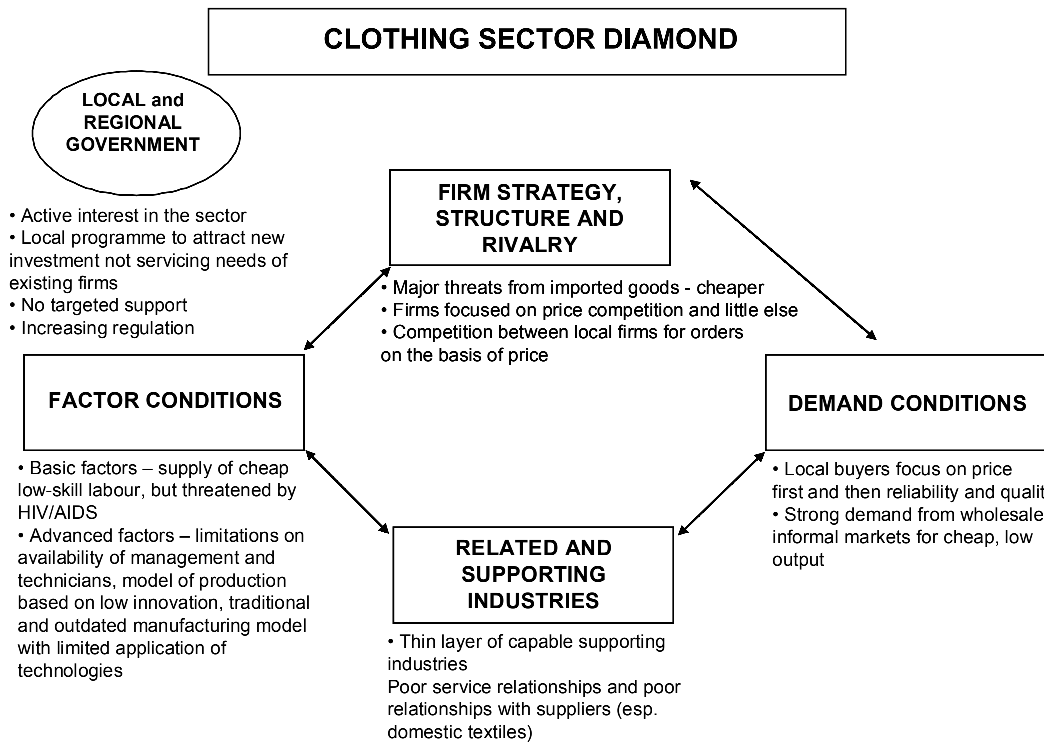
[18] Hart (2002) reports that the Taiwanese firms did not use subsidies other than the RIDP for investment support. These firms instead used intra-Taiwanese firm connections and credit from one large Taiwanese textile firm in Ladysmith. Currently, the network is used for: 1) the purchase of textiles, 2) the purchase of finished garments and, 3) for the smaller firms to engage with a shift towards selling items other than clothing. The setting up of Richfin in Newcastle seems to have formed part of a continuing trend of strong social networks among the foreign firm owners.

[19] The larger firms are in a better position to withstand the financial burden associated with production than smaller firms.

[20] This project was initially driven by clustering objectives. "The main aim of the industrial cluster project is to broaden the local and economic and industrial base of Newcastle, Madadeni, and surrounding areas by expanding the forward and backward linkages of a number of key industrial sectors. It is anticipated that the sectors with most potential for cluster development are textiles, steel, chemicals and agri-processing, though the project remains open to exploration of opportunities within other sectors." [McIntosh Xaba & Associates, (2003: 69)] Admittedly however, the presence of foreign firms in Newcastle *already* coincides with a process of "clustering". What drives this particular clustering is likely to be founded on local labour market and networking scale effects.

of the authorities is perceived as either conflictual or as falling short of providing the support required to generate a sustainable industrial production platform. To recall, local economic development is a "process in which partnerships between local government, community-based groups and private sector are established to manage existing resources, to create jobs and stimulate the economy of a well-defined area." [McIntosh Xaba & Associates (2003: 2) quoting DEDT, "Local Economic Development Policy Paper: Refocusing Development on the Poor", DPLG, Feb. 2002] Figure 7 which reports the positions by actors knowledgeable about the industry but who are primarily outside of it,[21] indicate some main positions towards local and regional government. The figure also illustrates how the industry is locked in a difficult position.

Figure 7. Determinants of the Newcastle-Madadeni clothing sector competitiveness



What also comes clearly from informants within and outside the industry is that no single difficulty currently experienced by the firms in Newcastle can be considered in isolation from other difficulties mentioned by those consulted. Labour costs might be perceived to be too high *because* of the growing competition with imported goods and *because* firms operate in the low-value added segment of the market. In turn, retail pressures *are related* to the exchange rate level. Productivity levels might be too low relative to the current retail pressures etc. In a similar setting of connected determinants of changes, the value added pressures which confront the more established firms in urban-areas (for instance through high factory space costs) are lacking in non-metro areas. There firms which are locked into lower and low value added goods are more resistant to changes, including wage adjustments. As such, labour costs come to occupy a central position. This is the case at

[21] This is because most of those who attended the focus group were from sectors other than clothing (e.g. banking sector, tertiary education, parastatal etc.).

this point in time in Newcastle with the consequence that many drivers of performance are perceived of secondary importance.[22]

Given the above, how then should one approach the issue of opportunities? Opportunities relate to the *capacity* of firms to engage with new processes/products, gains have to be derived from the changes. As such, opportunities entail for the firms, at least, a process of "survival". For the Municipality, the problem is primarily one of job-creation and thus of economic diversification in a context in which jobs are hard to retain. More generally, the complexities associated with opportunities are perhaps best understood when recalling the method of project assessment of the "Economic Rejuvenation Study for the Coal Belt Region": each project was graded on the basis of 11 criteria. From a total list of 184 DEDT projects, 5 are related to clothing (including 2 sewing clubs). None of these projects secures a notably high grade, at least because of their limited scale in terms of employment. In the focus group discussion opportunities were viewed differently and focused on job retention. Thus, suggestions were made about learning from successful cases (e.g. Lesotho) and from learning about why firms close down. The focus group suggested that incentives (for SMMEs or for firms more generally – such as tax breaks) be revised accordingly. Having said that, opportunities require that some basic conditions be in place. In Newcastle, labour costs *and* labour productivity are the biggest challenge. Most firms in the area appear not to have been able to address either the productivity challenge or its counterpart, engaging with labour costs issues. One will not become unlocked unless the other one is dealt with.

5 RECOMMENDATIONS

The terms of reference of the study asks for a series of recommendations that need to be of relevance in the local government context and issues that would need the attention of the KZN DEDT. Specific reference is made, in the terms of reference, to recommendations that could:

- Reinforce the sustainability of the clothing sector in Newcastle-Madadeni;

  and
- Point to opportunities for new development in the clothing sector which also offer the potential of employment and entrepreneurship creation in Madadeni.

The process of developing recommendations has involved a number of activities:

- Drawing on existing documentation and studies;
- Seeking proposals from participants in interviews and workshops;
- Testing ideas from best practice with stakeholders;
- Drawing proposals from primary research and analytical processes;
- Assessing options in terms of relevant contextual analysis relating to issues such as timing, resources, institutional capacity, stakeholder commitment and exogenous factors.

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22 For instance, transport costs mentioned of importance to the local industry in the focus group were rarely raised as an issue by the clothing firms. Yet, transport costs mattered in conjunction to late orders in 2003 when substantial amounts were paid in airfreighting the goods. Moreover, the firms face the high cost of empty containers returning to Durban.

Previous studies such as the Township Economic Regeneration Report and the Coal Rim documents made a variety of proposals, although proposals specific to Newcastle-Madadeni and to clothing were rather limited. Stakeholders that were aware of these reports expressed some concern that they were not disseminated widely and there was little evidence, apart from this study, of progress on action areas identified. Nevertheless, some common themes in terms of recommendations have been carried through into this study.

In making recommendations it is good practice to make explicit the assumptions that inform the recommendations and the choices made in terms of such recommendations. As mentioned above the following were seen to be relevant:

Timing
Stakeholders expressed an interest in seeing some rapid progress on some of the recommendations. This was seen as important to build momentum and belief that the originators of the project were serious about following through with further commitments.

Resources and institutional capacity
All stakeholders expressed concerns as to the availability of resources. Firms were under pressure and unable to spare people for lengthy periods of time. Various government stakeholders indicated that there were limitations in terms of staff that could be allocated to carrying forward the recommendations of the project. Both the local council and the district municipality indicated that they had limited funds to allocate to future actions. Although the capabilities of the Director of Economic Development of the Newcastle Municipality were widely recognised, capacity problems were still seen to be a serious issue. Concerns were also raised as to the degree to which dedicated and sustained attention could be secured from the KZN DEDT as sponsors of this study. As the Department has struggled to build capacity, its ability to follow up on initiatives is constrained. Business formations also outlined capacity and resource limitations. An exception was in the arena of skills provision where it is clear that resources are available should firms and service providers be able to get their act together to source these funds from the Textiles, Clothing, Footwear and Leather Sector Education and Training Authority – although the SETA itself had not shown an ability to act in a proactive manner with regard to local needs.

Stakeholder commitment
Stakeholders involved in the study processes regularly expressed doubts about the likelihood of any form of successful collective action to address concerns. Persistent mistrust and low levels of confidence in local and external role-players were regularly expressed. An exception in this context was the widespread confidence in the role the Newcastle Director of Economic Development could play.

Exogenous factors
A series of significant exogenous factors relating to global economic processes, the rand exchange rate value and national policy choices were seen by the majority of stakeholders as being very influential in determining the success or otherwise of possible projects that might arise from recommendations made.

The above factors all impact on the likelihood of various recommendations to be taken forward and implemented successfully. The issues raised and summarised in the preceding discussion are neither fixed nor universal truths, they can and in many cases should be seen as a common basis for future partnership building processes. However, in a context such as the one outlined it is important to be cautious with recommendations and avoid grand schemes which might appear appealing but have little chance of success.

5.1 Short term interventions with a focus on the clothing sector:

Appoint a part-time clothing project facilitator for the Project Steering Committee

Motivation:
The establishment of a Project Steering Committee presents an opportunity to build a longer term partnership to support economic development activities in Newcastle and Madadeni areas. However, it appears that none of the key stakeholders have the capacity to support the PSC on a more active basis. An appropriate support person, preferably someone with a sound reputation and experience in the clothing sector, would be able to dedicate time and skills to implementing recommendations of this study and other processes that would be prioritised by the PSC.

Focus:
1. The brief of the appointed individual would be to carry out the viability studies and business planning relating to the creation of a Newcastle-Madadeni Clothing Business Development Centre. The notion of a pro-active business resource centre was widely proposed and has precedent in similar developmental environments. Firms and stakeholders indicated that there was poor access to information on a range of subjects, lack of knowledge about industry processes and service entities, and the lack of a common point of reference for external role-players to interact with Newcastle-Madadeni clothing enterprises. The intention would be to establish the centre on a lean, perhaps even virtual basis (i.e. it could take the form of an actively administered web site and the facilitation of regular meetings without any substantial overheads) initially, and move to more resource intensive options should circumstances justify. Initial priorities proposed included the following:

- Information sharing (e.g. briefings);
- Resource sharing (common library of trend research, industry standard documentation etc);
- Skills enhancement co-ordination (management level and shopfloor);
- Business growth support through mentorship of BEE clothing enterprises.

2. The facilitator would organise a series of dedicated 2-3 day "clinics" for relevant entities to come to the region to disseminate information on their activities and assist with firm and other stakeholder requirements. Possible candidates for the "clinics" would include: SETA, DTI, DOL, SARS, Bargaining Council, Proudly South African and Buy SA.

3. The facilitator should network with existing and potential BEE clothing firms in the region to ensure their active participation in processes and establish their specific needs and requirements.

4. Approach the ILO project team to discuss the possibility of using the firms as demonstrator examples to other firms in the area on improving productivity and meeting acceptable standards.

<u>Implementation issues:</u>
Predominantly funded by **KZN DEDT**, accountable to **Project Steering Committee** and managed by Director Economic Development (**Newcastle Municipality**).

Facilitate behind the scenes resolution of bargaining council dispute

<u>Motivation:</u>
A range of stakeholders indicated that the present dispute between some clothing employers and the bargaining council (as well as the Department of Labour) was contributing to tensions and could escalate further to impair the region's already damaged reputation. Resolution of this in a manner which positions the Newcastle region as an area where stakeholders commit themselves to negotiated processes is important. The potential exists to turn around a negative scenario into a positive one where the region' reputation and that of key members of its community is enhanced.

<u>Focus:</u>
Local leadership should give serious consideration to seeking, perhaps with the assistance with a prominent KZN person of high ethical standing, to facilitate a negotiated outcome and resolution of matters out of court.

<u>Implementation issues:</u>
The implementation of this recommendation is likely to involve considerable behind the scenes discussions and processes and would need the weight of a prominent respected individual to be able to drive it. **PSC in consultation with Newcastle Municipality and DEDT.**

Initiate high-level partnership (KZN-wide) interaction with the DTI via MEC-Minister processes on national clothing sector dynamics

<u>Motivation:</u>
It is clear that there remains some major policy uncertainties set at a national level that are affecting all clothing and related industry sectors. Whether elections bring changes in ministerial positions at a Provincial and National level or not a collective approach to the relevant political leadership would be important to at least attempt.

<u>Focus:</u>
Key issues that need to be raised in this process include the low likelihood of a common plan between clothing and textile representatives, DCCS, AGOA, incentive schemes, differential labour rates.

<u>Implementation issues:</u>
The **KZN DEDT** could facilitate a gathering of relevant structures and key individuals in the clothing sector and use ministerial channels to arrange a discussion. Consideration should be given to a joint approach with Western Cape firms on at least some issues. It should be noted that a clothing industry process is underway in the Western Cape which has buy-in from government, employer organisations and employee organisations.

5.2 Medium term interventions with a broader focus (6-24 months):

The arranging of a series of information sharing activities and the appointment of a project implementer recommended above are critical to build momentum and belief in the process. However, it is also important to recognise that collective processes envisaged in some of the recommendations are likely to take some time to yield benefits and in some cases considerable preliminary work would need to be done to ensure ultimate progress. The following proposals fall into the category of issues that need immediate planning, but are only likely to make a difference in the medium term.

Funding and establishment of Clothing Business Development Centre

Motivation:
The business planning process proposed in the short term actions category would determine the likely focus and viability issues around such a centre. However, as was previously mentioned, the majority of stakeholders expressed the need for some type of industry resource at a local level to deal with information provision, communication and technical support issues. It is also clear that should the government stakeholders wish to support the further development of black owned enterprises in the sector, that some form of dedicated resource would be necessary.

Focus:
The focus of the Clothing Business Development Centre would need to be determined through the planning process. Issues such as those mentioned previously are likely to form the core of activities:

- Information sharing (e.g. briefings – on AGOA, new quality standards, bargaining council processes etc.);
- Resource sharing (common library of trend research, industry standard documentation etc.);
- Skills enhancement co-ordination (management level and shopfloor) – for example placing quality control learnerships together with the SETA.
- Business growth support through mentorship of BEE clothing enterprises – in particular a model tested in the Eastern Cape involving managed allocation of state procurement to incubated businesses is worth some attention.

Implementation issues:
Great caution should be exercised to ensure a structure with limited overheads that maximises knowledge-based services. An approach to incrementally rollout new services and capabilities over a number of years should be considered. Whereever possible local resources should be utilised. Funding options needing investigation would include **KZN DEDT, KZN MAC, CSIR, Amajuba, Newcastle Municipality**.

"Newcastle Responsible Production" grading process

Motivation:
Both internal and external stakeholders expressed considerable concern at the image of Newcastle as a location for manufacturing. Poor media publicity related to a series of incidents and court disputes over employment conditions have created negative perceptions which have not been proactively addressed. Furthermore, increasingly both domestic

market and international market buyers need to source from production facilities which meet standards of ethical trade involving approved labour standards and approved processes related to the environment and quality. Failure to be aware of and in many cases adopt such standards will result in firms supplying to cost-driven markets. On the other hand some differentiation on the basis of responsible production commitments has the potential to offer some marginal niche potential and could reinforce the region's reputation.

Focus:
An independent accredited entity would work with local stakeholders to develop a series of levels of accreditation in line with domestic and international standards processes. Firms would then be offered diagnostic support (in no way connected to regulatory processes) which would in turn give them a set of requirements they would have to meet for levels of accreditation. The accreditation would need to carry the weight of acceptance with a critical mass of relevant bodies and could therefore be a branded substitute for other forms of accreditation.

Implementation issues:
The non-participation of the bulk of Newcastle-Madadeni firms in the ILO process (aimed at binding together improvement of conditions of employment with improvements in productivity) suggests that collaborative processes such as the one proposed do not enjoy widespread support. However, there does appear to be a critical mass of firms amongst those interviewed that do make an effort to meet basic standards and would be interested in some form of recognition of this status. Advantages that could accrue would be the attraction of the best employees and confidence of buyers. Seed funds would need to be made available – with the option of sourcing funds for instance from ILO or other bodies. Ideally funding should be committed by participating firms to make such an enterprise sustainable. Potential would exist to make this a KZN-wide commitment – that could be piloted in Newcastle-Madadeni. Newcastle Municipality could potentially drive this with the backing of the PSC and DEDT.

Re-evaluation of investment marketing processes

Motivation:
Newcastle Municipality has been most successful in its past efforts to diversify its economy through attracting Asian clothing sector investors into the town and its surrounds. However, changing global and domestic circumstances have begun to make this strategy yield diminishing returns in the recent past. It is critical that some serious attention be given to this matter amongst local stakeholders and with DEDT, TIK, TISA and others.

Focus:
A number of options would need to be assessed for a renewed focus. Consideration should be given to the TIK Business Retention and Expansion project which could enable a repositioning around providing services to existing firms in order to assist with their future development.

Implementation issues:
The present lack of a shared perspective in the Newcastle-Madadeni area on the business support and investment processes should be avoided at all costs. A process to reach a common perspective on priorities and opportunities would be a worthwhile intervention.

International best practice suggests that sourcing investment on a partnership basis between local business and local government can be highly beneficial. Such a partnership approach could also assist in resolving outstanding issues with TIK.

Newcastle-Madadeni–Northern KZN's Service Hub: a repositioning / diversification strategy

Motivation:
Analysis suggests that the past decade has seen rapid, perhaps unprecedented growth in Newcastle of service and retail activities – such that Newcastle's position as a premier northern KZN service hub/centre is being increasingly recognised by both the private and public sectors. It is important that there be an active drive to reinforce this. As the economy matures a greater number of jobs will be created in this sector and it is important for Newcastle-Madadeni to position themselves to attract investment and activity related to this sector.

Focus:
Activities would include conducting a survey of both the private and public sector on recent performance, prospects and constraints to further development. This could then be followed by a branding exercise positioning Newcastle-Madadeni as a service hub for the region and in targeting specific entities for consolidation of the activities in Newcastle-Madadeni. A recent example was the centralisation of health officials. Investment in public space and services would be an important element of this process.

Implementation issues:
Both the Amajuba District and the Newcastle Municipality should have a shared interested in enhancing the status of Newcastle-Madadeni. A shared commitment should be sought to facilitate new opportunities, both on the public and private front. Great effort should be made to leverage public investment choices by both entities to the benefit of improving the urban fabric and attracting new tertiary activities.

5.3 Other recommendations

ABC process:
The decision to establish an Amajuba Business Centre in the region is a welcome one and would fill an obvious gap. However, it is critical that the relevant stakeholders are informed of the process and at present it appears that some sectors of the business community are not fully informed of the programme, which could result in governance and operational problems in future. The potential does exist to consider alignment of specialist clothing support with the development of the ABC. The ABC should also be in a position to provide much need information, advice and mentorship to emerging black-owned enterprises that have historically been given little attention. Care should be taken to ensure it is in a position to provide outreach/field services in surrounding areas.

Ladysmith-Ezakheni and Newcastle-Madadeni Co-operation:
Whilst the two centres have a history of competition it is likely that they would share some issues in common – particularly when it comes to the clothing and textiles sector. Developing some shared perspectives and joint activities could reduce costs and risks and

present benefits to all stakeholders (for example on the training front with colleges and SETAs).

HIV/AIDS interventions:
Independent research work and input from the stakeholders have identified this as a important area for government attention. HIV/AIDS issues are impacting on the workforce and the investment environment. Firms in the area appear to have little in terms of active strategies to deal with the consequences.

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7 DATABASES

The data used in this paper have been gathered from the following sources:

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2. Statistics South Africa. Website consulted in March 2004. The main page is at: http://www.statssa.gov.za/

3. The DTI database. This database provides a shortcut to a series of data from official South African sources as well as to in-house dataset. Data can be downloaded from http://www.dti.gov.za/econdb/

4. The demarcation board where a unique database is being built up. See http://www.demarcation.org.za

5. The TIPS database which provides shortcuts to data from official South African sources. TIPS has an excellent in-house standardised South African industrial database (for national data) and a very large set of national and international trade data. See http://www.tips.org.za/

6. The WEFA or Global Insight dataset has been bought by the researchers.